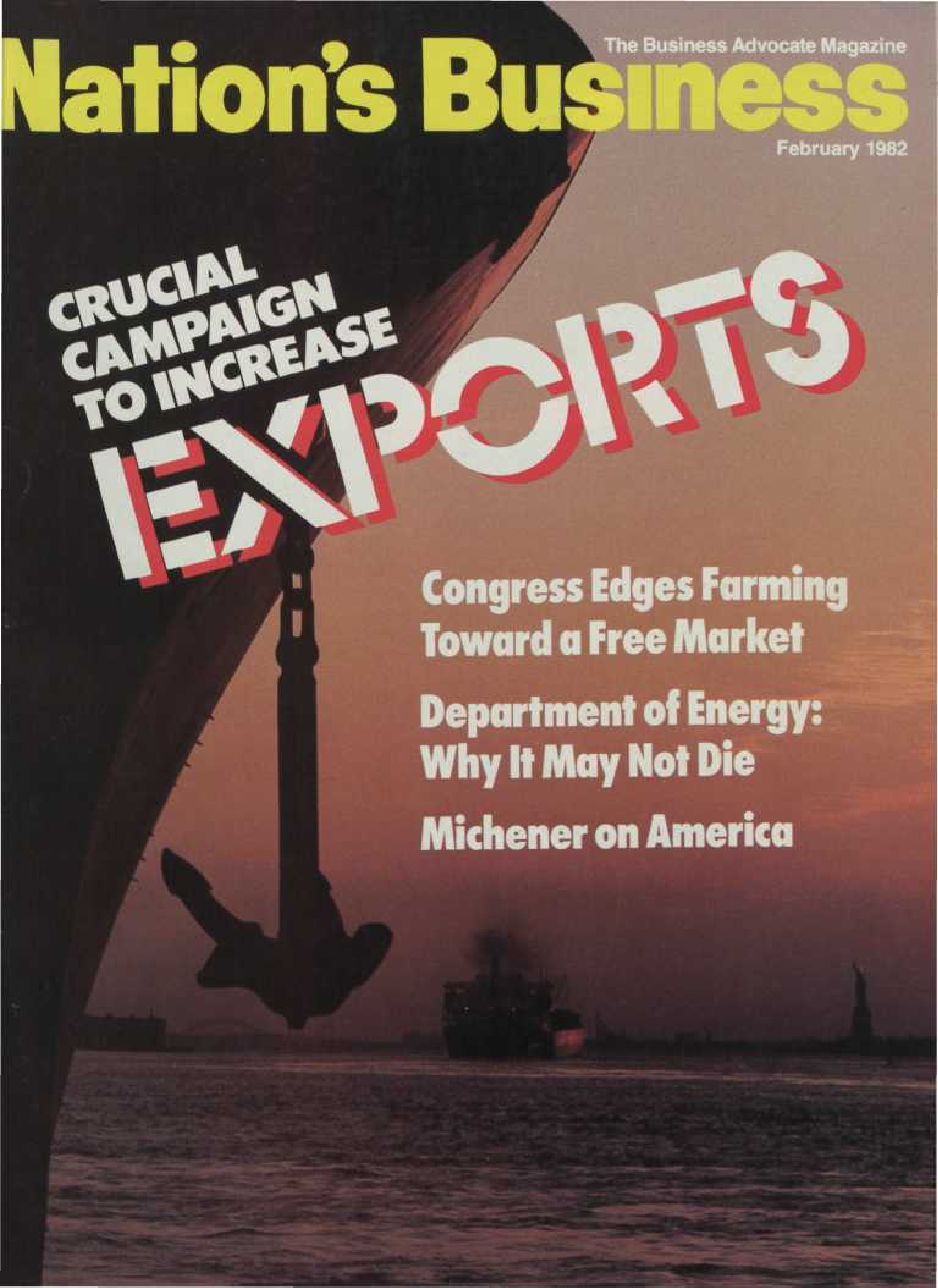
The Business Advocate Magazine

Nation's Business

February 1982



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Congress Edges Farming Toward a Free Market

Department of Energy: Why It May Not Die

Michener on America


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Washington, D.C.

Nation's Business

Upgrading Trade

Increases in exports are considered crucial to economic recovery. The result: much sentiment in Washington for removing barriers that impede U.S. firms and for making other nations be fair. **22**

Thatcheromics

Some people will tell you that what has been happening to Britain under Prime Minister Thatcher previews what will happen to us under President Reagan. Such doomsayers are far off the mark. **34**

DOE May Not Die

Though Secretary James B. Edwards is committed to implementing the President's pledge to dismantle the Department of Energy, that vastly changed agency has a better chance of survival. **50**

Electronic Offices

Agreed, new technology is revolutionizing America's offices. But how can you make the best use of that technology? Articles in a special report answer the question and describe new equipment. **59**

Departments

Washington Letter	5
Letters To the Editor	8
James J. Kilpatrick	12
Outlook	14
The Entrepreneurs	41
For Your Tax File	76
Sound Off To the Editor	77
People in Business	78
Sound Off Response	80
Editorial	84

Cover Photo: Dick Durrance II—Woodfin Camp

Edging Toward a Free Market in Farming **28**

Nobody likes the 1981 farm bill, it is said, but everyone can live with it. This article will help you understand legislation that affects all of us.

A Fairer Shake for Small Business **39**

The Regulatory Flexibility Act and the Equal Access to Justice Act, two "milestone" laws designed to protect small firms, are shaking up federal bureaucrats.

Penniless Chief Executive **42**

Brother Timothy, one of America's most respected wine makers, runs a thriving big business in a growth industry, but he doesn't even own his toothbrush.

Mining the Government's Information Lode **54**

Uncle Sam produces a wealth of factual material from which businesses can profit. Digging out facts for others is proving profitable for research firms.

Michener Looks at Today and Tomorrow **70**

A Book Bonus. Excerpts from *James A. Michener's USA* focus on aspects of national life that will have significant impact on business in the years ahead.

Does Your Firm Need Outsiders on the Inside? **73**

A board of directors should not be a rubber stamp, writes the chairman of a successful, closely held company. He gives tips on obtaining good recruits.

The Detector Set **81**

Modern treasure hunting owes its popularity to the lure of what can be found underground or underwater—and to thrills and the electronic metal detector.

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WASHINGTON LETTER

▶ NEW BUDGET? President will insist on preserving major features of tax relief granted last year. Tax increases in recession are poison, and he knows it. Some small increases may come later, after recovery. Will involve excise taxes, user fees, tightened deductions. Budget will be presented on February 8. Expect additional spending cuts in $30 billion to $35 billion range and deficit near $100 billion.

▶ UNEMPLOYMENT is peaking now, says U.S. Chamber's chief economist, Richard Rahn. He sees improvement soon. Biggest danger, Rahn believes, is that current high level of unemployment will be used as excuse for new spending programs.

▶ BREAKUP OF ENERGY DEPARTMENT is turning into congressional headache for administration. Prominent among opponents is member of President's own party, Senate Energy and Natural Resources Committee Chairman James A. McClure. He objects to plans to treat breakup as fait accompli in fiscal 1983 budget, since Congress hasn't authorized it. Budget Director David Stockman has proposed Solomonic solution: Provide alternative budget drafts. But that does not satisfy McClure (R-Idaho), who seems determined to keep the baby in one piece.

▶ NATURAL GAS DEREGULATION proposal will probably be sent to Congress this spring, according to Energy Secretary James Edwards. Included: Accelerate removal of price controls now being phased out and extend decontrol to "old" gas (that found before 1977). Possible hitch: Aftereffects of record-breaking cold wave. Consumers facing big heating bills will not be in mood to hear of new price increases.

▶ EMPHASIS ON DEREGULATION shows in new "Calendar of Federal Regulations," listing 167 of most important rules pending at 33 federal agencies. Fifty-three of the entries describe regulations now in effect that are being reviewed at request of Presidential Task Force on Regulatory Relief. Nearly 63 percent (105) deal with some kind of deregulatory activity.

▶ IRS IS SOFT on delinquent taxpayers? That seldom-heard view is advanced by General Accounting Office. GAO notes that delinquent taxes have increased from $13 billion in 1979 to $15 billion in 1980, despite ongoing IRS collection efforts. Blamed for problem: "Passive collection policies," inefficiency, inadequate information, limited resources.

▶ FAST-GROWING BUSINESSES attract IRS attention, says former tax agent David Skinner. Other "flags": Lavish display of wealth disproportionate to reported personal income; unusually large cash transactions or purchases of government securities; large property transactions where source of funds isn't obvious; bragging about outwitting IRS. This information is gleaned from media and bank reports, government lists, audits of other taxpayers and informants. Most likely informant: spouse or former spouse. Skinner provides details in new book, "Defeating the IRS."

▶ WILL SENATE CONFIRM Preston Martin, designated to replace Frederick Schultz on Federal Reserve Board? Yes. Members will complain, for the record, that Fed needs someone with small business background, which Martin lacks. But he's an expert on savings and loan industry, and it needs help, too. Currently on board of Sears, Martin has been consultant

specializing in thrifts, S&L commissioner of California and chairman of Federal Home Loan Bank Board (1969 through 1972). In last capacity, he prompted many innovations in thrift industry, including creation of Federal Home Loan Mortgage Corporation. Philosophy? Pragmatic conservative but not closely identified with any economic school. Might replace Paul Volcker when his term as chairman expires in August, 1983. No clear signals on that yet, though.

▶ NEW CAPITAL for underwriting and other purposes--$500 million of it--will become available as result of rule change approved by Securities and Exchange Commission. SEC halved amount of reserves--from 4 percent to 2 percent --that brokers are required to maintain against "aggregate debit items... attributable to customer transactions." Change had been sought by Securities Industry Association. It becomes effective May 1.

▶ SOCIAL SECURITY is taking a bigger bite than federal income tax for 24 percent of taxpaying families. That situation is expected to continue for rest of decade, says Social Security Administration.

▶ SACRED COW status of Social Security benefits may weaken as workers learn how much system will cost them in future years. That's indication of special poll taken by Gallup Organization for American Economic Foundation. Two separate samples were used. One group was presented only with background information sympathetic to view that benefits should be untouched. Seventy percent agreed with this "retiree viewpoint." Second sample was shown only background material supportive of this statement: "Why should I have to pay so much now to support retirees who contributed only a few dollars a week during most of their working years?" Fifty-five percent agreed they shouldn't.

▶ SUIT TO FORCE rehiring of fired federal air traffic controllers could backfire on public employe unions. Action was brought by coalition of national unions and consumer groups in U.S. District Court for the District of Columbia. It was dismissed without prejudice on grounds that plaintiffs had not exhausted administrative remedies. Interesting question if case continues later: Do parties bringing the suit have "standing"--that is, are they sufficiently affected by what happens to PATCO for court to recognize their right to sue? Notes nonprofit Public Service Research Council: "If the plaintiffs ...succeed in achieving standing, they will establish a legal precedent under which individual citizens...may sue for damages in illegal public sector strikes and sue government agencies for strict enforcement of laws..."

▶ ALL THAT GLITTERS: If informal poll of sentiment on Gold Commission is reliable, the 17-member federal advisory group will not recommend return to gold standard. It was not expected to. However, commission may suggest that Treasury mint new gold bullion coin. Coin's value would fluctuate with price of gold. (Next step, say cynics, would be gold-coated coin with copper center.) Formal report of commission will probably be issued in late March.

▶ INFORMAL TRADE BARRIERS, based on attitude and tradition, are biggest remaining problem for U.S. access to Japanese market, according to Trade Subcommittee of House Ways and Means Committee. Members, who recently toured Far East, fear that Japan will surpass U.S. in high-technology products.

▶ "THE SOVIET UNION has erected a huge monument honoring its astronauts. It is made of titanium. We couldn't have made such a monument out of titanium, but the Soviets know how to handle [it] better than we do. It is the strongest available metal for a given weight, but it is very tricky to fabricate. Now this is the kind of technical capacity where one would expect that we would be ahead." Edward Teller, nuclear physicist and senior research fellow, Hoover Institution.

Views on Transportation Policy

Re: "Pay-As-You-Go Transportation" [December]. I totally agree with Secretary Drew Lewis that public transportation will have to learn to live with lower federal subsidies or none at all.

Three years ago my husband and I sank everything into a taxi service. We paid for our business ourselves but are totally controlled by the public utility commission. That's not our complaint; we went into this with our eyes open. However, the government, using county, state and federal monies, has set up a bus service. This service is operating as a private enterprise, even offering free rides to promote ridership. We are not in a position to do that. We are sinking fast because we cannot compete with the government.

MARGARET KILBURN
Lafayette Taxi
Meadville, Pa.

Secretary Lewis' desire to dismantle Amtrak shows a complete misunderstanding of the purpose of Amtrak. He looks on Amtrak as a drain on the taxpayer because of the up-front subsidy. Lewis mentions his continued aid to smaller airports and the interstate highway system, which amounts to backdoor subsidies to the airlines and motor bus operators.

Since the formation of Amtrak, for the first time in American history travelers have had a choice in transportation. The further expansion of Amtrak will contribute to that freedom.

GEORGE M. BOLLINGER, JR.
Broken Arrow, Okla.

The main problem with Amtrak is that it persists in operating as a welfare institution with emphasis on head counts rather than revenue per passenger-mile, which is a true index of productivity.

Four long-distance routes operating in the Western states generate more revenue per passenger-mile than the entire Northeast corridor, and the *San Francisco Zephyr* alone outperforms the Metroliners. The reason for this is no mystery. The Western railroads have been prosperous for years with their long freight hauls while the Eastern railroads were going bankrupt with their short hauls. Although seriously constrained by route and equipment limitations to handling 30 percent of the passengers, long-distance trains earn 60 percent of Amtrak's revenues.

Amtrak's emphasis should be shifted to the national system, and profits can be increased by selling rail travel as a preferred commodity—since air and highway travel are becoming increasingly unaffordable.

M.D. MONAGHAN
Garland, Tex.

Amtrak was presented as a dying business, while in fact the ridership is far higher than Secretary Lewis would have us believe. Only Greyhound and four major airlines posted higher ridership figures in 1981.

Lewis also states that it is a myth that passenger rail service saves energy. Rail is the most fuel-efficient mode of land transport. Europe and Japan have proved this for many years.

He says that this country is in a period of austerity with regard to transportation. How then can we afford to spend $2.23 billion for four miles of highway in Manhattan, when our public mass-transit funds are being cut and interstate highways are crumbling?

JOHN H. SITA
Secretary
Louisiana Association of Railroad Passengers
New Orleans, La.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Secretary Lewis is either extremely misinformed or a puppet who merely recites the rhetoric of the pro-big-oil Reagan administration. He argues that trains, particularly those operated by Amtrak, are prime suspects on the list of inefficient modes of transportation. In fact, though, passenger trains are the most efficient form of transportation when measured by passenger-mile per gallon of fuel.

DENNIS TOEPPEN
Mount Prospect, Ill.

This country does not need a Pearl Harbor of bridges. A well-maintained highway network linked to defense installations and factories by secondary and tertiary roads is an absolute must for defense.

Why not take a portion of funds from the $200 billion defense budget and fix the bridges to support essential military and civilian traffic in the name of defense? Jobs will be created, and ultimately the economy and the nation will benefit.

MERLIN C. RACE
Hillsdale, N.J.

I am an avid pilot and use the airport system regularly. My only objection to paying users' fees is the amount of regulation and unwarranted control. Also, the great bulk of users' fees paid by those in general aviation goes to keep carrier airports up-to-date.

The Federal Aviation Administration has raided the Airport and Airway Trust Fund, which was set up with users' fees for improvement of all airports in the system, and funneled funds into the larger airports for day-to-day operations.

CHARLES P. NICHOLSON, JR.
Morehead City, N.C.

Two scoops

"Rehiring the Retired" [October] is an interesting paradox. By any other name it's known as double-dipping.

BILLY E. CANNON
Delaware Area Chamber of Commerce
Delaware, Ohio

Campaigning already?

James J. Kilpatrick's column "How Not To Select Presidents" [December] is of great interest and makes good sense. His comments about the early Iowa caucus and the early New Hampshire primary are correct. These early dates completely distort the actual political situation in relation to the standings at convention time.

Iowa selected an early date for the purpose of party organization so we would have enough time between the county, district and state conventions.

I am opposed to open primaries. They require an excess amount of time and money for the candidates and the party.

Some form of time limit on campaigning for all offices is in order. No campaigning should be permitted until May or June of the election year. This gives the candidates six to seven months in which to sell themselves. Also, Congress should be required to adjourn by June 1 of an election year. Early adjournment would free the incumbents of their legislative responsibilities and let them concentrate on re-election.

L.W. KEHE
Chairman
Republican Central Committee of Bremer County
Waverly, Iowa

Winning the Presidency is generally a matter of winning states with big electoral votes. Therefore, the selection process is dominated by the big states and so is the election process. The winner-take-all rule in every state except Maine is a national disgrace. It is the root of all election evils. There is something very wrong with a system that enables pollsters to predict early on Election Day how 26 Illinois electoral votes will be cast. All they need to do is sample 2,000 votes in Dupage and Cook counties.

Since the Supreme Court has ruled one man–one vote, can it fail to rule one district–one vote? I believe some Cook County district that went for Carter in 1980 could make history. They could sue Illinois because the state counted their vote for Reagan, not Carter.

CLYDE E. MILLER
Lisle, Ill.

Added to the archives

Re: "In Sound's Seven-League Boots" [December]. As the national membership organization of amateur radio operators, we were pleased to add your article to our archives.

For more than 65 years amateur radio operators have been providing emergency communications without fi-

nancial payment. The only reward for a job well-done is the satisfaction of having made a positive contribution and, occasionally, public recognition of these good deeds. By recognizing the efforts of these volunteers, you have encouraged similar actions.

ANDREW TRIPP
Public Information Officer
American Radio Relay League
Newington, Conn.

I would like to add a minor point to your article on ham radio operators. Ruth Barber, if she is married, is no longer a YL; she is an XYL. If a woman is married, the X goes before the YL.

HUGH MONTGOMERY, JR.
Montgomery Company
Windsor Locks, Conn.

No clues

I searched in vain for some clue to where Gerhard Gscheidle took the very striking picture for your December cover. How about telling us?

CLAYTON L. SPEER
Victoria, Tex.

Editor's note: That's Newark International Airport in the foreground. Route 95—the New Jersey Turnpike—runs between the airport and one of the ports off Newark Bay. Route 78 carries traffic across the bay to Jersey City, the Holland Tunnel and then into Manhattan.

That's me!

I read with interest "The Quiet Revolution in Hospital Management" [December]. But my interest turned to twinges of pain when I realized that the accident victim the ski patrol was lifting into a helicopter was me. The Intermountain Health Care's helicopter was on the scene when I was brought off the ski slopes with a dislocated shoulder and a broken arm. Who would guess that I would pick up NATION'S BUSINESS and discover a photo of myself in such a situation?

PAULA O. BELL
Executive Vice President
Roosevelt Area Chamber of Commerce
Roosevelt, Utah

Radio competition

Re: "A Classical Success Story" [October]. This article is about Parkway Communications Corporation and its success in marketing and syndicating

classical music programs to commercial and public radio stations across the country. Neil Currie, the president of Parkway, is quoted as saying that National Public Radio is his major competitor and that "the government shouldn't be in broadcasting." If it were not for the major grants by the Corporation for Public Broadcasting to the public radio stations across the country, many of his customers would be unable to buy his product.

In any event, NPR is planning to get out from under federal financing just as soon as we can, leaving that to the local stations. We are eager to test President Reagan's proposition that the private sector will make up the difference as federal funds decline. We think he is right in this prognosis and expect that we will be able to sell "shares" in public radio and earn money in an entrepreneurial way to finance our programming.

FRANK MANKIEWICZ
President
National Public Radio
Washington, D.C.

A government dole

Re: "Social Security: Is a Patchup Enough?" [October]. I am firmly convinced that Social Security is nothing more than a government dole—welfare to the aged and disabled. It is funded by an earmarked tax that is paid by fewer and fewer taxpayers to a larger and larger number of recipients.

The system will fail.

The demographics of today and those projected for the future cannot support a pay-as-you-go system.

R. BRITT HARRIS, JR.
Attorney
Harris, Phillips & Harris
Atlanta, Ga.

Here is an idea I think will work to supplement the money for the Social Security system.

Place a $1 federal tax on each carton of cigarettes, each quart of liquor, each gallon of wine, each case of beer and each case of dog and cat food.

The poor people who receive a welfare check or food stamps cannot afford to purchase these items anyway. Therefore, only the affluent would be affected by this kind of tax. No sarcasm intended.

Although I don't buy cigarettes or dog and cat food, I do occasionally buy alcoholic beverages and am more than willing to pay this additional tax.

WALTER L. SCHUSSLER
Port Ewen, N.Y.

BY JAMES J. KILPATRICK

A Plea for Impoverished Children

THIS IS NOT, as the title might lead you to believe, a plea for food to be sent to the starving children of Bangladesh, though God knows they need our help. This piece has to do with our own children. They are starving in a different way, but they need help as sorely. My thesis—it is actually Richard Mitchell's thesis—is that 42 million pupils in our public schools are suffering from an educational malnutrition that threatens the very survival of the Republic.

These are serious charges, and Mitchell makes them with deadly seriousness. He is a professor of English at Glassboro State College in New Jersey. He is also the editor, publisher, typesetter and printer of the *Underground Grammarian*, a monthly publication in which he inveighs against the abuse of language by persons—especially professors—who should know better. More to the point, he is the author of the recently published *The Graves of Academe* (Little, Brown), which ought to be a best-seller but probably won't be. Mitchell has stepped on too many toes.

His view of the educational landscape is depressingly familiar. Once upon a time—and that time wasn't so very long ago—our public schools taught mostly solid stuff. Children learned to read, chiefly by the phonics method, and they cut their teeth on books with some meat in them. Children learned arithmetic in the old-fashioned way. Early on, they learned something of history and geography. In high school they wrote themes; they memorized great chunks of poetry and drama; they had a go at foreign languages. Even in the great cities, disciplinary problems were few. The teachers were there to teach, and the pupils were there to be taught, and that was the size of it. The system worked. Whether the students went on to college or went to work in shops and offices and factories, they had a foundation to build on.

The past 50 years have wrought terrifying change. There are exceptions, of course, but Mitchell's purpose is to paint the broad picture. These days the curriculum is rotten at the core. Hurricanes of permissiveness and egalitarianism have swept away most of the old academic disciplines. The themes, the diagramed sentences, the memory work, the tedious exercises in geometry, the courses in Latin, the elements of geography, the basic structure of names, dates, facts, events, the chronologies of kings—little of this remains. The hours that once were devoted to such instruction have been nibbled away. We have field trips now, and driver education, sex education, drug education, nutrition education. We have everything across a smorgasbord but an education.

Mitchell does not blame the classroom teachers for this wretched course of events. Many of them are as victimized as the children in their charge. He blames the top-heavy educational establishment—the teachers' colleges, the producers of bland but profitable textbooks, the armies of coordinators, facilitators, consultants, counselors and assistant supernumeraries who feed upon the swollen budgets for public education. He blames the school boards that are suckers for gaudy innovations. He blames the state legislatures that yield to clamorous pressure groups.

Here we have the trickle-down theory in its worst application. The teachers' colleges (again, with exceptions) are manned by second-raters whose livelihood depends upon the teaching of superfluous courses. Ex-basketball coaches get doctoral degrees, based upon dissertations on Comparative Storage Systems for Athletic Equipment, and go on to become superintendents of schools.

The products of this system impose their incompetence on the prospective teachers in their charge, and the teachers, like Typhoid Marys, infect the little children. We get high school graduates who lick their pencils, gaze at the ceiling for inspiration and spell Congress with a K.

MITCHELL is an angry man. He writes with clarity, wit and grace, and he provides hilarious examples of educationists at work, but there is no mistaking his theme. He fears for the future of our nation. There always will be a small cadre of brilliant students—young men and women who make it despite the public schools—but what of the rest? There may be something to be said, though probably not much, for high school courses in "intercultural appreciation," but such courses are pitifully poor substitutes for basic instruction in foreign languages. We are never going to maintain world leadership if we produce a generation of thumb-suckers and tube-watchers, unable to read a daily newspaper or to recognize the inherited values of Western civilization.

The Graves of Academe is not comfortable reading. It is damned uncomfortable reading. But if I were to nominate one book of the hundred-odd new titles I read in 1981 as Book of the Year, this would be my choice. Read it and weep—and then get as angry as Richard Mitchell. □

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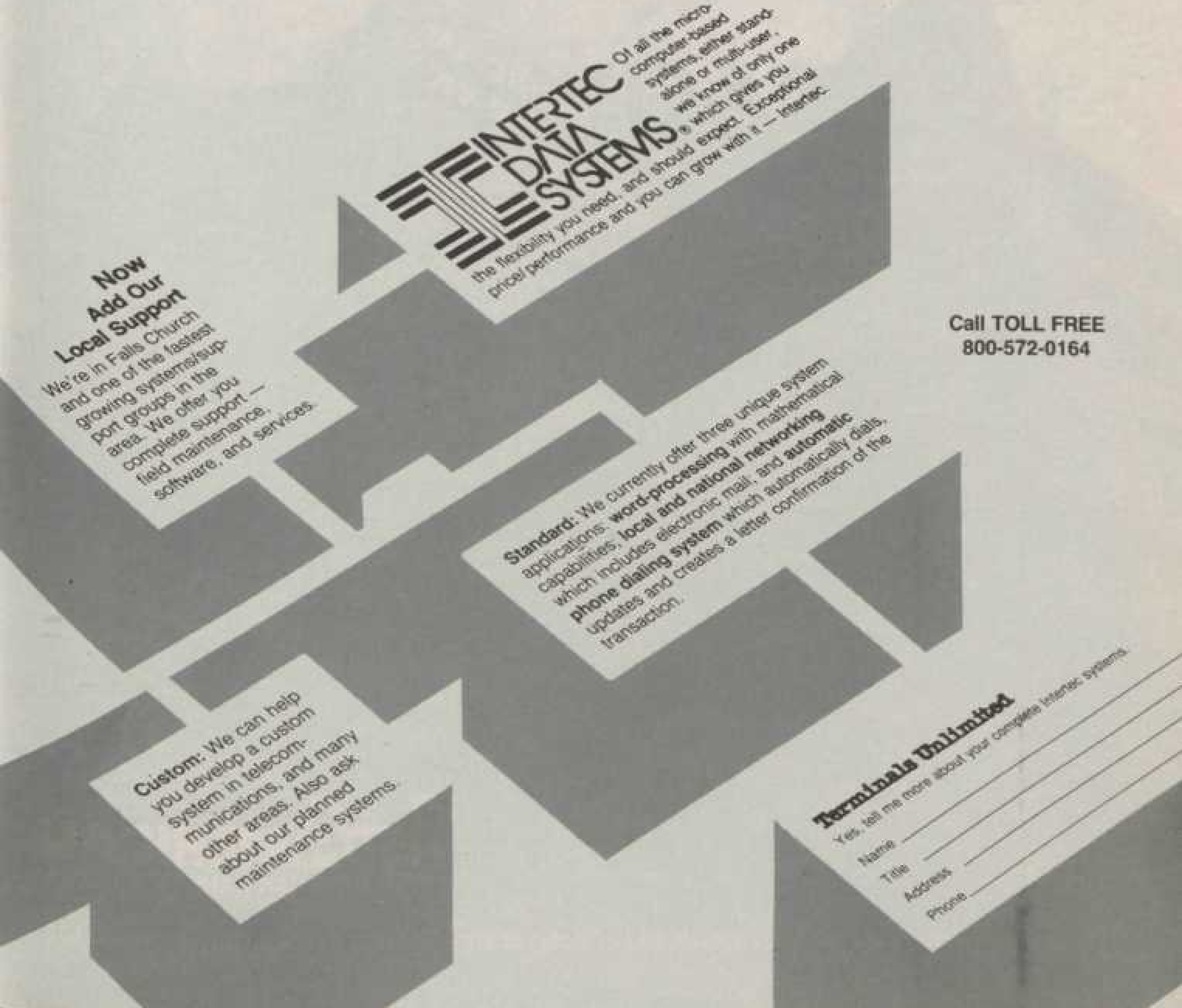

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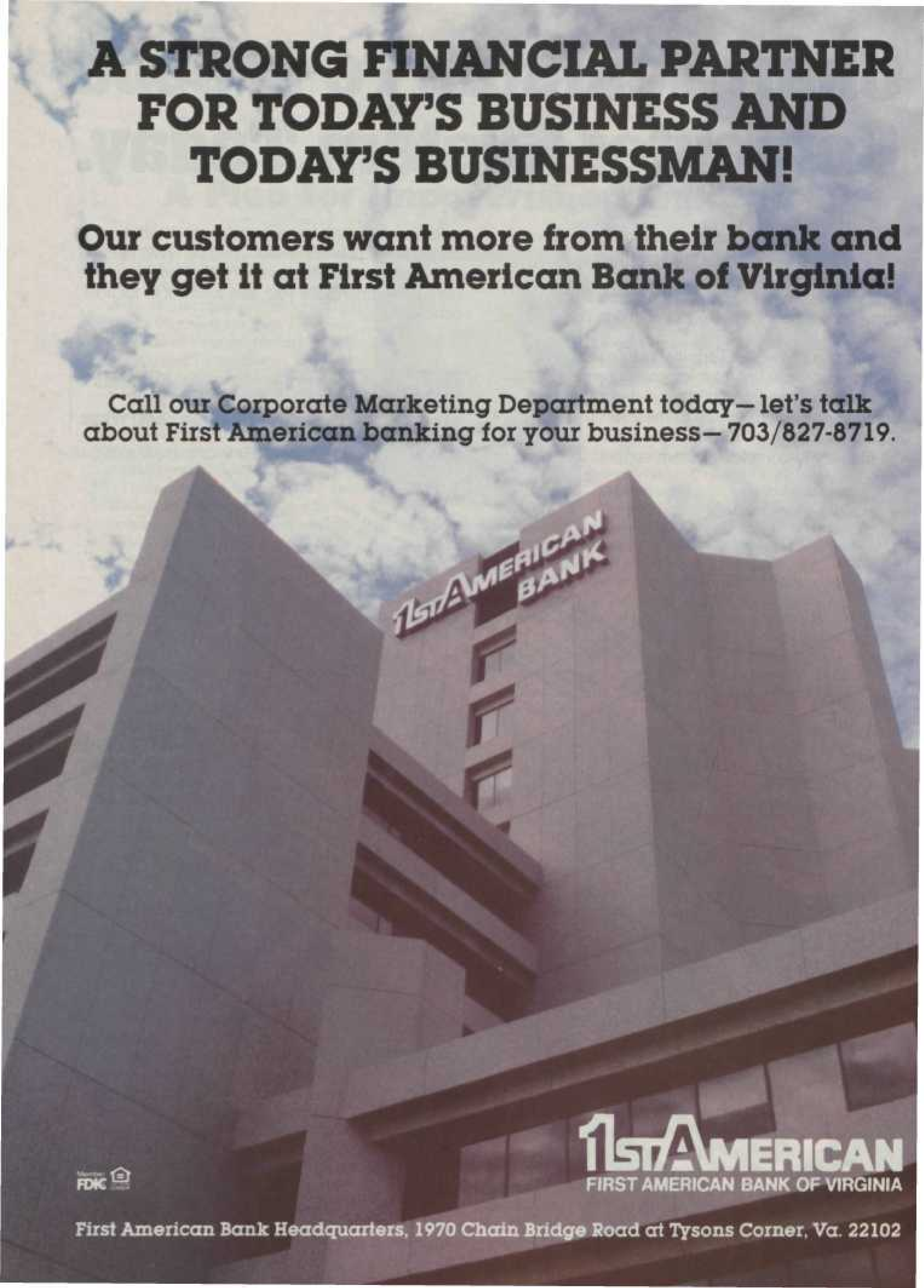
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OUTLOOK

THE ECONOMY

Villain For Productivity Lag

Of the dozens of major and minor theories advanced to account for the nation's poor productivity performance, lagging capital investment is the most appealing villain. But the case is hard to prove because capital investment measured against output has actually increased as productivity has declined.

Maybe that's the wrong comparison, says George Terborgh, economic consultant to the Machinery and Allied Products Institute, Washington.

Terborgh points out that the growth of capital stock *per worker* declined to 1.65 percent a year in the 1973-80 period, compared with 2.69 percent for 1947-60. And output per worker-hour went down with it, from 3.13 percent annual growth in the earlier period to 0.6 percent for the more recent.

"If the adequacy of investment is gauged by the growth of stock per worker," says Terborgh, "the record of 1973-80 must be adjudged dismal. By this test, the period suffered from grave underinvestment."

Terborgh says the slower growth rate of the labor force plus the Reagan efforts to stimulate capital formation could reverse the unfavorable trend.

Federal Budget Is Unlike All Others

The debate over federal deficits rages on. But it "is probably not worth the considerable attention it attracts," says Richard W. Kopcke, vice president and economist of the Federal Reserve Bank of Boston.

Writing in the November-December issue of the bank's *New England Economic Review*, Kopcke points out that "unlike the budgets of businesses, households, many state and local governments, and some foreign governments, the federal budget does not distinguish between current expenses and capital investments." It is a cash flow statement.

It is not unusual for a healthy business to show a cash flow deficit, he continues. Indeed, if the aggregate budget of America's nonfinancial corporations were calculated the way the national budget is, Kopcke says, it would show a deficit of $104 billion for 1980. "Many of the nation's better-managed businesses, especially those that have grown most rapidly during the past two decades, rely on borrowed funds for their expansion and improvements," he explains. "Similarly, the concomitant expansion of public capital—investments in defense, transportation, natural resources and education—were financed partly by current federal tax receipts and partly by federal borrowing."

Such analysis "is not intended to condone past fiscal policies nor can it dismiss the charge that government is 'bloated,'" he cautions. But it does suggest that "the reported deficit is a poor summary of fiscal policy."

Lawmakers Debate Tax Expenditures

When conservatives complain about federal spending, liberals complain about "tax expenditures"—revenue the government fails to collect because it has allowed taxpayers meeting specified conditions to defer, reduce or escape the "normal" tax.

A bill to limit tax expenditures has been introduced by Rep. David E. Bonior (D-Mich.), a member of the House Rules Committee. This bill, H.R. 4882, would require that budget resolutions set a "recommended level of tax expenditures." Any bills that would cause the recommended level to be exceeded could be blocked by the objection of one representative.

Bonior's bill is, however, proving to be something of an orphan. The chairman and the ranking minority member of the House Ways and Means Committee say it is unnecessary and an unwarranted intrusion on their turf.

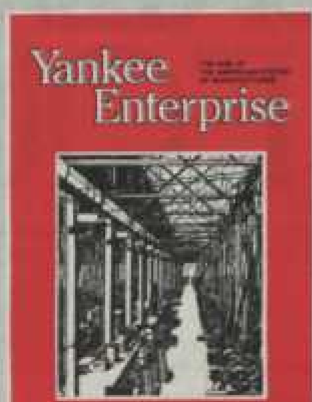
Speaking for the business community, Richard W. Rahn, vice president and chief economist of the U.S. Chamber of Commerce, made these points in testimony before the Rules Committee:

- Even proponents of the concept cannot agree on what constitutes a tax expenditure, and inconsistencies abound. Graduated corporate tax rates, for

Scholars Examine U.S. Manufactures

So astounded were the British by American wares displayed at London's Crystal Palace exposition in 1851 that a special commission was dispatched to study "the American system of manufactures."

Experts—native and foreign—are still studying it. One of the "facts" most Americans remember from their school days—that the development of interchangeable parts led to the mass production techniques—turns out to be a half-truth. In the late 18th and early 19th centuries, hand finishing of not-so-interchangeable parts was often less costly than the precision required to produce true interchangeability. The latter was of interest to the military, which was willing to pay a premium for easy field repair.



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But if interchangeability isn't the key, what is? The issue is addressed in *Yankee Enterprise: The Rise of the American System of Manufactures.* Published by the Smithsonian Institution Press, the book is a compilation of papers presented at a 1978 symposium sponsored by the U.S. Chamber of Commerce. The essays were written by experts in the history of technology, economics, business and society.

Paperbound copies of the illustrated, 300-page book (publication 6548) are available for $9.95 from the U.S. Chamber, 1615 H Street, N.W., Washington, D.C. 20062. Attention: Special Publications.

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example, are classified as tax expenditures; graduated individual rates are not.

• Tax expenditures cannot be accurately measured. Municipal bond interest, for example, doesn't get reported on recipients' tax returns.

• The budget impact of changes in individual tax expenditures cannot be accurately predicted.

The tax expenditure concept, Rahn adds, is philosophically repugnant: It is rooted in the notion that all income belongs to the government, which demonstrates its munificence by allowing those who earn it to keep some of it.

SMALL BUSINESS

Call the Bank . . . And Live Longer

A busy small business should expect its bank to share the administrative load, says a new Citibank guidebook.

Most small businesses die young. In a new *Banking Guide for Growing Businesses*, Citibank, the New York-based financial giant, offers some tips on avoiding a premature demise.

One of the bank's suggestions is "leveraging your banking relationship—let your bank provide management services that will reduce the administrative load."

For example, credit checks on suppliers and potential customers can help prevent costly errors. "Your banker can be your best reference to suppliers, customers and investors," the guide states. "He can often introduce you to new customers and suppliers in the U.S. and abroad." Some other productivity boosters:

• Direct deposit of pay into participating employes' accounts.

• Tax filing services. There's one less thing to worry about when the bank makes payroll tax payments, files returns with federal, state and local authorities, and responds to government inquiries.

• Account reconciliation. A small business can better control cash flow when the bank computer supplies timely, comprehensive reports on checking account activity.

The Small Business Administration says poor financial management causes 90 percent of new business failures.

Federal Research Funds for Smalls

A bill to give small business a better shot at federal research and development funds could be law by midyear.

The Small Business Innovation Research Act, unanimously passed by the Senate, would require federal agencies with R&D budgets in excess of $100 million to reserve 1 percent of those funds for awards to small firms.

The House Small Business Committee has approved a bill similar to the Senate version, but three other House committees—Energy and Commerce, Armed Services, and Science and Technology—share jurisdiction. These three committees are expected to listen closely to university officials, who fear the legislation will divert federal research funds from their facilities.

Bruce F. Freed, staff director of the House Small Business General Oversight Subcommittee, discounts the problems of multiple jurisdiction and university opposition. "The bill has 165 cosponsors [out of 435 members] and more are expected," he says. And since Speaker Thomas P. O'Neill, Jr., has directed the committees to report by March 1, Freed predicts "House passage in the spring."

U.S. Market Lures Foreign Acquisitors

Medium-sized foreign firms are energetically shopping for small U.S. businesses—and the trend is likely to accelerate.

Anthony C. Paddock, vice president of Standard Research Consultants, a New York financial consulting firm, says mid-sized companies (sales of $50 million to $400 million) in Europe, Canada and Japan see their larger rivals enter U.S. markets and "feel compelled to do the same thing."

Paddock, who says there are no firm statistics to document the merger movement, estimates that "there were between 2,000 and 4,000 acquisitions by foreign firms during the past four years, compared with a yearly average for all acquisitions of 4,000 to 5,000."

Why invest in the U.S.? Paddock says the market is too big to be ignored. And Europeans, particularly French executives unhappy with their socialist government, like America's political stability, he adds.

Paddock says foreign buyers are looking for manufacturing firms, banks and such real estate as hotels. The Japanese are interested in technology, he adds. They have been buying small high-tech concerns.

CORPORATIONS

Compensation Trends for CEO's

Cash compensation packages of chief executives passed a landmark in 1980: Five CEO's of the top 100 industrials earned more than $1 million for the first time. Despite slower growth rates in corporate sales and profits, total cash compensation (salary plus annual bonus) for this group continued to increase at a steady 10 to 13 percent rate. Median total cash compensation reached $616,570.

CEO's employed by the bottom 100 industrials—whose sales volume ranked 400 to 500 among the leading 500 companies surveyed—showed a median cash compensation of not quite half that amount, $303,000. Their rate of pay increase, only 8 percent over the previous year, did not even keep pace with the 12.4 percent rise in the consumer price index.

The executive compensation study is done annually by the New York-based management consultants Towers, Perrin, Forster & Crosby.

In 1982, the consultants suggest, very large companies may want to reassess their incentive plans, since American industry continues to be criticized for its short-term focus. However, with the passage of the Economic Recovery Tax Act of 1981, stock options enjoy favorable tax treatment and may again become a significant component of executive compensation programs, thus tilting the balance further toward short-term incentives.

R&D: Predictor Of Company Growth

How much effect does research and development spending have on corporate growth?

Quite a lot, according to a recent survey by Value Line, a leading stock market evaluation service. A comparison was made of 409 top

industrial companies. For each firm, R&D expenses from 1978 to 1980 were divided by sales for the same three-year period, giving an R&D:sales ratio.

Results: The top 100 companies, whose R&D:sales ratios averaged 5.6:100, showed earnings growth of 15.2 percent a year and book value growth of 13.2 percent. The bottom 100, whose R&D:sales ratios averaged 0.44:100, had corresponding growth of 11.3 percent and 9.6 percent. The margin of difference between the top 10 firms and the bottom 10 was even more dramatic.

A Value Line representative comments: "We can't prove which came first, high earnings or high R&D spending, but we are inclined to think that the 1978-80 spending levels reflected a company's attitude toward research that didn't spring forth overnight."

Lying by Degrees: B.S., M.B.A., Ph.D.

That new young exec down the hall—the one with the bulbous class ring who goes around humming the "Whiffenpoof Song"—he may not be for real.

So says Richard J. Cronin, president of Hodge-Cronin & Associates, an executive search firm in Rosemont, Ill. His surveys show that one in 10 executive job applicants lies about his academic degrees.

"For example," he says, "the Harvard University registrar's office indicates that of 50 graduate reference requests received each week, up to five of the individuals involved will have no record of having attended the school."

Business is being snookered because, says Cronin, college degree claims often aren't verified by business. Polling 440 vice presidents or directors of personnel representing manufacturers, financial institutions, retail chains and service industries, Cronin's firm learned that only 32 percent of the respondents always verified claims about college degrees.

Paradoxically, respondents indicate they would take harsh action if an exec lied about academic credentials: "More than 80 percent said they would fire the individual," Cronin says.

Yet a high school dropout who shows up in a letter sweater does sometimes make it to the executive suite, and Cronin's survey has an answer for that, too:

"One third of the respondents said experience and personality were more important than degrees."

AGRIBUSINESS

A World's Fair Of Food and Drink

The country's market basket will be open for inspection when the United States International Food Show is held in New York City in April.

"The future for agriculture in the U.S. is market expansion," Secretary of Agriculture John R. Block recently told a group of foreign agricultural and commercial counselors. "I encourage you to take advantage of the spectacular display of reliable, high-quality products at reasonable prices to be shown there."

The show will concentrate on foods and beverages. No food preparation equipment will be shown.

American participants will also have an opportunity to sample and order products from many countries, including Austria, Israel, West Germany and Chile.

Time To Update Irrigation Law?

A homesteading statute from a bygone era is under attack as a hindrance to modern farming.

The House Subcommittee on Water and Power Resources is considering a number of proposals that would modify or eliminate provisions of the Reclamation Act of 1902, which limits to 160 acres the amount of land that a single landowner may irrigate from a federal water project.

In 1902 the average farm was 140 acres; by 1980 it had grown to 429.

Portions of a Senate bill easing irrigation rules have been criticized by the U.S. Chamber of Commerce for excluding agribusiness firms. As proposed, the bill would bar agribusiness firms or other organizations with 25 or more shareholders and owners from use of water from federal projects to irrigate their farmland.

Of the five bills pending, the Chamber fully approves only H.R. 160, which would remove the 160-acre limit and the requirement that federally irrigated land be owned by a single owner.

No immediate action is expected.

PHOTO: TED SPIEGEL—BLACK STAR

Are federal irrigation rules dating from 1902 all wet? Agribusiness firms say yes and seek some revisions.

Farmers Need More Interest Relief

Continuing relief is foreseen for farmers who have been hit by rising interest rates. And those hardest hit, the highly leveraged users of short-term loans, will be the first to benefit.

However, says Frederick H. Schultz, vice chairman of the board of governors of the Federal Reserve System, "the reduction in interest rates that occurred in the last few months is unlikely to produce dramatic improvement in the financial situation of the farming sector as a whole. The increase in total interest costs will be slowed, but average rates on new loans would have to fall below 11 percent in order to reverse the upward climb in the average rate on all debt."

Longer-term relief, he says, will not come until there is a pronounced and continuing moderation in inflation, which will bring permanently lower interest rates and set the stage for sustained economic growth.

GOVERNMENT

NLRB Nomination Stymied by Senate

John R. Van de Water's appointment to the chairmanship of the National Labor Relations Board may depend on President Reagan's persuasiveness on the telephone.

The President nominated the California lawyer and expert in management-labor relations to the job last summer. The 64-year-old Van de Water, a Republican, has been serving in that post pending confirmation by the full Senate. The Senate has been unable to act, however, because the nomination has been blocked in the Senate Labor Committee by two 8-8 votes.

"It's a labor-management confrontation," says Arthur Rosenfeld, U.S. Chamber of Commerce labor law attorney. The Chamber and some labor leaders favor the nomination, but the AFL-CIO contends Van de Water's career is splotched by "putting together antiunion campaigns and materials."

The Senate Labor Com-

when I planned to
retire before fifty

this is the business that made it possible

a true story by John B. Haikey

Starting with borrowed money Duraclean gave me the opportunity for financial security... In eight years I sold out at a profit and retired.

"Not until I was forty did I make up my mind that I was going to retire before ten years had passed. I knew I couldn't do it on a salary, no matter how good. I knew I couldn't do it working for others. It was perfectly obvious to me that I had to start a business of my own. But that posed a problem. What kind of business? Most of my money was tied up. Temporarily I was broke. But, when I found the business I wanted I was able to start it for a small amount of borrowed money.

"To pyramid this investment into retirement in less than ten years seems like magic, but in my opinion any man in good health who has the same ambition and drive that motivated me, could achieve such a goal. Let me give you a little history.

"I finished high school at the age of 18 and got a job as a shipping clerk. My next job was butchering at a plant that processed boneless beef. Couldn't see much future there. Next, I got a job as a Greyhound Bus Driver. The money was good. The work was pleasant, but I couldn't see it as leading to retirement. Finally I took the plunge and went into business for myself.

"I managed to raise enough money with my savings to invest in a combination motel, restaurant, grocery, and service station. It didn't take long to get my eyes opened. In order to keep that business going my wife and I worked from dawn to dusk, 20 hours a day, seven days a week. Putting in all those hours didn't match my idea of independence and it gave me no time for my favorite sport — golf! Finally we both agreed that I should look for something else.

"I found it. Not right away. I investigated a lot of businesses offered as franchises. I felt that I wanted the guidance of an experienced company — wanted to have the benefit of the plans that had brought success to others, plus the benefit of running my own business under an established name that had national recognition.

"Most of the franchises offered were too costly for me. Temporarily all my capital was frozen in the motel. But I found that the Duraclean franchise offered what I had been looking for.

"I could start for a small amount. (Today, only $2,988 starts a Duraclean dealership. The full cash price is $9,987). I could work it as a one-man business to start, and operate from my home. No office or shop or other overhead, no salaries to pay. Equipment would fit in my car trunk. (I bought the truck later, out of profits.) Best of all, there was no ceiling on my earnings. I could build a business as big as my ambition and energy dictated. I could put on as many men as I needed to cover my volume. And I could build little by little, or as fast as I wished.

"So, I started. I took the wonderful training furnished by the company. When I was ready I followed the simple plan outlined in the training. During the first period I did all the service work myself. By doing it myself, I could make much more per hour than I had ever made on a salary. Later, I would hire men, train them, pay them well, and still make an hourly profit on their time that made my idea of retirement possible — I had joined the country club and now I could play golf whenever I wished.

"What is this wonderful business? It's Duraclean. And, what is Duraclean? It's an improved, space-age process for cleaning upholstered furniture, rugs and tacked down carpets. It not only cleans but enlivens and sparkles up the colors. It does not wear down the fiber or drive part of the dirt into the base of the rug as machine scrubbing of carpeting does. Instead it *lifts out* the dirt by means of an absorbent dry foam.

"Furniture dealers and department stores refer their customers to the Duraclean Specialist. Insurance men say Duraclean can save them money on fire claims. Hotels, motels, specialty shops and big stores make annual contracts for keeping their carpets and furniture fresh and clean.

"Well, that's the business I was able to start with such a small investment. That's the business I built up over a period of eight years. And, that's the business I sold out at a substantial profit before I was fifty."

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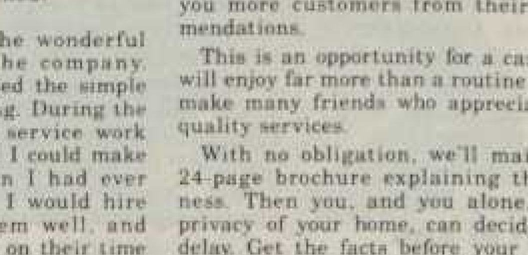

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PHOTO: GEORGE TAMES

NLRB nominee John R. Van de Water hangs tough.

mittee's chairman, Orrin Hatch (R-Utah), calls that statement poppycock and charges that Van de Water's opponents are "playing games to embarrass the President."

If so, the ploy isn't expected to work. The White House says it won't withdraw the nomination—as AFL-CIO President Lane Kirkland suggests—but instead may urge the President to get on the phone and persuade one of the committee's seven Democrats or their ally, Republican Sen. Lowell P. Weicker, Jr., of Connecticut, to see things differently.

The Penny With A Heart of Zinc

If that new penny in your pocket feels lighter than an old one, it's not your imagination. The government has started to circulate a zinc-based, copper-plated coin. It looks like other pennies but weighs 19 percent less.

Zinc was chosen after extensive testing, says a representative of the U.S. Mint, because it is stable in supply and price. The changeover will cost the government an estimated $25 million less annually than using copper at its present price.

Blanks for the new pennies are supplied to the Mint by the metal and chemical division of Ball Corporation, a Muncie, Ind., company better known for its glass containers.

Vending machine, banking and retail industries support the switch because the new penny can be used in existing vending and coin-counting machines. Now, does anybody know a vending machine that still dispenses penny candy?

Revisions Likely In Clean Air Act

The long-predicted major struggle over revision of the Clean Air Act is shaping up now, with H.R. 5252 as its focal point. That bill—introduced late last year by Rep. Thomas Luken (D-Ohio) and an influential group of cosponsors—is an attempt to preserve the basic structure and purpose of the act while reforming those provisions that have proven excessively burdensome administratively or economically.

Specifically, the Luken bill liberalizes some of the technical and procedural requirements for both stationary and vehicular emissions, facilitates deadline extensions or waivers by the Environmental Protection Agency, and greatly reduces the red tape now associated with state implementation plans.

The bill has bipartisan support as well as labor and business backing. It has drawn fire from environmentalist groups, however.

Extensive hearings on the Clean Air Act were held in both houses of Congress last year, but no new legislation was enacted. The authorization for the act expired September 30. It has been extended by various temporary measures pending formal adoption of a budget for fiscal 1982.

PERSONAL

Definitely Not A Throwaway

Of all the business cards you picked up last year, how many did you save? Only a dozen? To increase the odds that you'll hang on to his, the next salesman may hand you a card of sterling silver.

It will weigh 1 troy ounce and duplicate its bearer's throwaway card, with the letters indelibly printed in epoxy ink by a photographic process.

The man who thinks the silver card's value will endear you to the caller is Arnold Fox, president of California Mint Masters, Woodland Hills, Calif. In the four months his idea has been in production, he has sold several thousand silver cards, mostly single orders for $29.95 each. "But some people have bought 10 and even 20," Fox says. He gives discounts for orders of five or more.

Sales reps are not Fox's

PHOTO: CALIFORNIA MINT MASTERS

If you want a memorable business card, try sterling.

only potential customers. "Perhaps you'd like a raise," he proposes. "So you could have a card printed up with your boss' name and title. He'd be impressed." The silver is guaranteed, but the raise isn't.

Hold Off On Job Shopping?

The recession has moved from the assembly line to the office, but the slump in demand for senior executives won't last long.

Those findings come from Russell Reynolds Associates, an international executive recruiting firm, which in November asked 1,300 chief executive officers about their plans to hire managers earning $50,000 and up.

Most CEO's—85 percent—expect to hire fewer senior executives than last year or the same number, and 68 percent plan to put the new people in old positions rather than expand their executive staff.

Job hunters who offer expertise in information systems and data processing will fare better than other specialists this year: 26 percent of CEO's are looking for them. Next most wanted are marketing and sales people. General managers, sought by only 14 percent of CEO's this year, will be in greater demand over the next five years, when 49 percent of the respondents will want to hire them. Demand for information systems and data processing executives will grow even stronger. In fact, the five-year outlook is propitious for nearly all specialties; public relations people are the major exception.

Russell S. Reynolds, Jr., chairman of the recruiting firm, attributes the good long-term outlook to pent-up demand caused by the current recession.

INTERNATIONAL

Rating the Risks Of Business Abroad

You probably weren't planning on setting up shop in Iran this year, but just in case, two political scientists would advise you not to. That country is rated riskiest for business along with Libya, Nicaragua, El Salvador and Zaire.

William D. Coplin and Michael K. O'Leary of Syracuse University have rated 66 countries for political instability and government restrictions affecting business. Their report also considers international conflicts—the Arab-Israeli conflict and Iran's and Libya's attempts to stir up dissension.

The heating up of the Cold War is another risk facing international business, they say. "Whether or not the nuclear threat is actually heightened by Reagan's policies, the increased emphasis on nuclear war and the Soviet-American confrontation affect political conditions in all 66 countries." □

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This is a chance to make a favorable impression on your employees at practically no cost and with virtually no effort.

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PHOTO: DENNIS BRACK—BLACK STAR

Crucial

Healthier foreign trade would be a key restorative for our ailing economy. Which is why there's some tough talk in Washington.

PHOTO: KEN KAMINSKY—UNIPHOTO

PHOTOS: ELI HELLER PICTURE GROUP

PHOTO: ANDY LEVIN—BLACK STAR

For years now, ships leaving the U.S. have carried a smaller total of goods than ships coming here. Auto imports have done much to create this imbalance in merchandise trade. America is still an export leader in aircraft and such products as chips (right) and other computer components, but its share of the world market for them has dropped.

By Bob Gatty

TOP U.S. GOVERNMENT officials charged with restoring America's Yankee Trader spirit and its position in markets abroad are talking increasingly tough with nations that refuse to make trade truly free and fair.

At the same time, efforts are under way in Congress to remove impediments in U.S. laws that have kept American firms from reaching their export potential.

The Reagan administration's top export proponents, as well as key members of Congress, contend that improving the balance of trade would make a major contribution to restoring health to the U.S. economy. Exports, after all, provide jobs. In a roundabout way, exports also fight inflation. Jobs that they create generate revenue that helps pay for imports, thereby encouraging competition. And competition curbs inflation.

Until 1971 the U.S. had an unbroken

Campaign To Increase Exports

string of merchandise trade surpluses going back to the late 19th century. It had a deficit in 1971 and a spotty record the next few years. Since 1975 the balance of merchandise trade has been solidly in the red, although services exports produced a favorable overall trade balance in 1980 and 1981.

Commerce Secretary Malcolm Baldrige points out that the U.S. accumulated merchandise trade deficits of more than $120 billion from 1975 through 1980. He projects that 1981 and 1982 deficits will add more than $60 billion to the total.

Baldrige says expansion of U.S. exports is "a cornerstone of the President's economic recovery program." Rep. Samuel M. Gibbons (D-Fla.), chairman of the House Ways and Means Subcommittee on Trade, says, "Foreign trade is the key to our economic recovery."

The problem, however, is complex. And there is division in the Reagan administration on dealing with it.

Budget Director David Stockman was recently overruled by the President when he proposed eliminating three Commerce Department offices that promote the sale of American-made goods abroad. Reagan sided with Baldrige and agreed to continue the Office of Export Development, the Bureau of Industrial Economics and the Foreign Commercial Service.

Michael A. Samuels, vice president of the International Division of the U.S. Chamber of Commerce, would like to see a firm administration policy dedicated to increasing trade and backed by major policymakers.

It has been disappointing, says Samuels, that some people in positions of power have failed "to view exports as a major part of the mainstream of the American economy." He says that every billion dollars of manufactured exports creates 27,000 jobs and generates $400 million in annual taxes.

A major part of the foreign trade problem is that some countries play by different rules than we do—rules that are stacked in their favor. So far, our government's principal response has been to attempt to talk our trading partners into reducing nontariff barriers that confront U.S. firms seeking international customers.

American firms are frequently prevented or discouraged from doing business in other countries because of difficulties presented by governments, private interests or both. For example, a U.S. manufacturer that wants to sell textile products in Korea, a major exporter of textiles to the U.S., must obtain a license approved by an association of textile firms. Generally, licenses are granted only for goods in short supply or not produced in Korea.

have to import a good deal more if they want to export more. They are beginning to understand that."

Deputy U.S. Trade Representative David Macdonald suggested at Senate hearings in December that the administration would have to consider other approaches—perhaps new legislation—if discussions with Japan do not bring a change in Japanese policies.

The change, he said, would have to be substantive. "We're not going to walk away with [a Japanese agreement to buy] 40 million more cigarettes," he said. "We're going to walk away with a

PHOTOS: GATTY COMMUNICATIONS

Sharing concern about an export outlook that could be rosier are (from left) Rep. Samuel Gibbons, chairman of a House subcommittee on trade; Secretary of Commerce Malcolm Baldrige; and U.S. Trade Representative William Brock.

Baldrige says he and U.S. Trade Representative William E. Brock "are both intent on trying to bring down restrictions wherever they exist around the world."

A joint U.S.-Mexican government commission is helping to "find creative solutions to the many trade problems" between the two nations, he says, as is a commission formed with China.

On a recent visit to Japan, Baldrige bearded Japanese officials about restrictions against U.S. products that, he says, "clearly have the Japanese beaten in quality or in price." He says such products include high-technology computer software, medical equipment and new pharmaceuticals.

"The Japanese usually find some way of delaying the introduction of our product" until a Japanese competitor can develop a similar product, Baldrige says. He adds, "The Japanese simply

trend toward more open trade." Otherwise, he said, the administration will tell Congress that action, not talk, is necessary.

"If you're not successful," responded Sen. John C. Danforth (R-Mo.), "we will be succesaful. We're not going to just watch major industries sink below the horizon on some mythical theory of free trade with Japan."

Danforth, chairman of the Senate Finance International Trade Subcommittee, early last year introduced legislation to limit importation of Japanese-built automobiles. The legislation went on the shelf when the Japanese in April "voluntarily" limited vehicle exports to the United States. Although Japan has abided by those restrictions, Japanese autos are still capturing well over 20 percent of the U.S. market. Danforth is considering reviving his legislation.

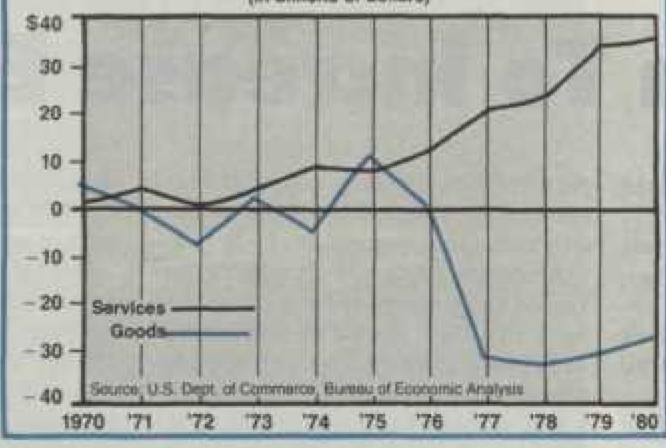
The U.S. has a larger merchandise trade deficit with Japan—by far—than

with any other nation. The deficit is expected to be close to $20 billion this year, up from $16 billion last year and $10 billion in 1980. To bring that figure back to $10 billion, the U.S. would have to nearly double exports to Japan, according to Under Secretary of Commerce for International Trade Lionel H. Olmer.

"If substantial progress is not made, I fear measures will have to be devised to rectify the situation," Edmund T. Pratt, Jr., testified before Gibbons' trade subcommittee last December. "It is in everyone's interest that the need for such measures be avoided."

U.S. Balance of Trade in Goods and Services

(In billions of dollars)



Pratt, chairman of Pfizer, Inc., and head of the President's Advisory Committee on Trade Negotiations, noted that Japan is "a mighty power" economically but seems unwilling to give others the same opportunities in its markets that it has in markets abroad.

Raymond J. Waldmann, an assistant secretary of Commerce, says reciprocity should be a "significant factor" in the U.S. government's attitude toward foreign firms. "If a country does not allow access to its markets," he says, "there may be attempts through the regulatory process or legislative devices to make it more difficult for it to operate in this country."

Japan, Olmer reports, has taken notice of a provision in a Senate-passed bill—it is pending in the House—that is intended to increase competition in America's telecommunications industry.

The provision permits the Federal Communications Commission to refuse to license telecommunications equipment from countries that don't give U.S. manufacturers of such equipment a crack at their markets.

"That could well lead to similar restrictions in a number of major industries," notes Rep. William Frenzel (R-Minn.), a member of Gibbons' subcommittee.

Gibbons says he is feeling pressure from many of his congressional colleagues to "try to save the lemon industries—the ones that are sour and going down the tubes."

That would mean "content" legislation, requiring that goods—such as automobiles—sold in the United States contain a certain percentage of components that were produced in the U.S.

Other legislative initiatives might include establishing limits on imports of various kinds, Frenzel says. He cautions against a movement toward protectionism in such forms.

"Once you fire the first cannon in a trade war, it's 'Nellie, bar the door,'" he says. The war, he says, isn't confined to two countries for very long: A U.S. move toward import restrictions would put us in a poor position to urge other countries to lift their barriers.

If negotiations at the ambassadorial level are unsuccessful, says Frenzel, the next step "has to be an act of summitry by the President himself."

1981 Trade Picture

The table shows the U.S. balance of trade in goods with a cross section of trading partners, according to the Commerce Department. Figures are annualized, based on data for January through November. The value of freight and insurance is not included for imports.

	Billions of dollars
Japan	−16.2
Nigeria	−8.0
Saudi Arabia	−7.3
Canada	−6.9
Taiwan	−3.8
Germany	−0.9
United Kingdom	−0.5
Korea	−0.2
Venezuela	−0.2
France	+1.6
Mexico	+4.2
Netherlands	+6.1

Organized labor is adding to the pressure for protectionist measures by Congress and the administration.

"Many national actions are needed to turn the economy around and put the nation on a solid expansion path," contends Rudolph Oswald, director of the AFL-CIO's Department of Economic Research. "One of these actions must deal with the additional impact of imports on industries reeling from the blows of recession."

Oswald says imports "must be regulated until U.S. industry can get back on its feet. Otherwise the plant closings will be permanent, and the U.S. will emerge from the recession with even less of an industrial base." The AFL-CIO contends the administration has not been active enough in this area.

Baldrige, however, points out that the Commerce Department in November initiated investigations to determine whether foreign steel is being sold in the United States at unfair prices in violation of U.S. law. The cases involve France, Belgium, Spain, Brazil, Canada, Rumania and South Africa. American steel companies last month filed additional unfair-trade complaints.

Meanwhile, another major industry—textiles—is complaining that imports from low-wage nations are threatening hundreds of thousands of jobs in the U.S.

Imports of textiles and apparel have increased about 7 percent annually over the past decade and in 1981 were up 18 percent over the previous year, Shelley Appleton, secretary-treasurer of the International Ladies' Garment Workers' Union, told the Gibbons subcommittee. "All of this has happened while the U.S. market had minimal growth."

Appleton called for strengthening the Multifiber Arrangement, which covers international trade in textiles. A new agreement has since been reached in Geneva allowing the U.S. to seek smaller import quotas when there is market disruption.

Some textile manufacturers, however, have expressed concern that the government may not make use of its new authority.

Though there is pressure from some quarters for protectionist measures in Congress, other legislative efforts are

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aimed at removing the impediments to trade that result from existing laws.

The Senate has approved, and the House is considering, legislation clarifying the Foreign Corrupt Practices Act, blamed by many American firms for loss of business abroad. The law was passed in 1977 following bribery scandals involving U.S. companies.

Under the new measure, sponsored by Sen. John Heinz (R-Pa.), chairman of the Senate Banking Subcommittee on International Finance, ambiguity in the old law would be eliminated, and U.S. firms could follow practices normal in many countries—including making so-called facilitating payments, defined as payments or gifts construed by the recipient as a courtesy or token of regard.

In effect, the measure would tell business people what is and is not permitted in business conduct abroad.

ANOTHER MAJOR BILL before Congress would facilitate creation of U.S. export trading companies, which would provide services necessary to link U.S. suppliers with customers abroad. The measure would help more small and mid-sized businesses take advantage of export potential.

Under the legislation, antitrust law would be modified so companies could work together to develop foreign trade opportunities. Banks could participate, providing needed capital and invaluable international expertise.

Still further governmental action is needed to spur U.S. business activity in the world trade arena, the Chamber's Samuels says.

He urges changes in the Export Administration Act of 1979 and other laws and regulations dealing with the response of U.S. companies to international boycotts. There are provisions, he says, that create confusion and unnecessary paper work.

As the U.S. economy becomes more involved with the international economy, there is a tendency, according to Samuels, for our laws to include provisions that affect operations abroad without recognizing special competitive conditions in other countries. A commission should be established to consider this problem, he says.

One role the government should continue to play, says Samuels, is provider of export credits—at least until an international agreement can be reached to bring export financing practices into line with market rates and terms.

Foreign governments' subsidizing of export financing has often placed U.S. companies at a disadvantage, according to Brock and Baldrige. They are considering a proposal to have the Export-Import Bank fund the difference between the interest rate on a U.S. commercial bank loan to finance exports and the rate of a competing foreign export credit if it is subsidized. Legislation to provide such a "war chest fund" has been proposed by Rep. Stephen L. Neal (D-N.C.) and Sen. Heinz.

Baldrige and Brock contend that to increase exports, American firms must become more competitive. They point to the administration's program of reduced taxes and fewer regulations on business as an important step toward that goal. Improvement of the domestic economy and incentives to spur modernization will increase U.S. productivity, they say.

"We are not going to be competitive until we get the inflation and interest rates down," says Brock.

There are some bright spots in America's trade picture, notes Under Secretary of Commerce Olmer. Agriculture is one, he says, and he points out that the U.S. is also the world leader in high-technology products, with a $30 billion trade surplus in that area. However, he notes that our share of the world market is slipping—from 30 percent in the early 1960s to 20 percent today.

Olmer notes that this country used to account for 65 percent of the world market for commercial aircraft but that by the late 1970s, the figure had dropped to 54 percent. In telecommunications our share has dropped from more than 30 percent to 19 percent.

"If we do not keep pace with the technological advances of our competitors," Olmer cautions, "we will lose our technological leadership in the world. More and more of the inventions and improvements that go into technology are occurring abroad."

Brock notes that "the heavy majority of American companies will never be in the export business. But the percentage of those that are involved, compared with those that could be and probably should be, is way too low."

Adds Rep. Gibbons, "American companies have always thought their markets extended only as far as the eye could see—or at the most, nationwide. Now they need to think of markets as around the world."

With that outlook, he says, and with government policies that encourage and assist U.S. firms seeking to do international business, America can move toward the day when the Yankee Trader label will aptly apply again. □

An Industry Gets to First Base

At least one industry is working directly with its Japanese competition to increase export opportunities.

In November the U.S. Sporting Goods Manufacturers Association and the Association of Japan Sports Industries held a summit in Washington and issued a joint communiqué confirming that the two sides will work for free and fair trade.

The Japanese agreed to stop preventing the sale of U.S. aluminum baseball bats to a major youth league in Japan, a controversy that had involved even Secretary of State Alexander Haig and Ambassador Mike Mansfield.

Haig asked Mansfield to investigate after U.S. manufacturers complained that Japan effectively barred importation of their metal bats by allowing a private organization to require a logo on the bats—and then denying its use to foreign firms.

According to the U.S., the practice violated international agreements in which Japan had participated.

Secretary of Commerce Malcolm Baldrige, who addressed the sporting goods summit, said the Japanese Ministry of Foreign Affairs has informed him that the system will be abolished.

So much for baseball bats. But Frederic H. Brooks, board chairman of MacGregor Athletic Products, notes that similar problems exist with basketballs, volleyballs, soccer balls and tennis balls.

Nevertheless, Howard J. Bruns, president of the Sporting Goods Manufacturers Association, says the meeting—the second for the industry with Japan in two years—has shown that American industry can resolve problems involving trade if only it tries.

Bruns says his association, headquartered in North Palm Beach, Fla., will help other industries initiate similar efforts.

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PHOTO: THE PROGRESSIVE FARMER

PHOTO: AL STEPHENSON—WOODFIN CAMP

Two controversial aspects of the 1981 farm bill are its ending of a system that barred newcomers from peanut growing and the level of its price supports for grains, which irks growers. National Association of Wheat Growers leader Jim Billington (with his wife in top photo) says the grain price-support issue isn't closed.

PHOTO: JAMES A. SUGAR—WOODFIN CAMP

Dairy provisions almost deadlocked action on the farm legislation, which in its final form is a measure that "nobody likes but everyone can live with."

THE AGRICULTURE AND FOOD ACT OF 1981:

Edging Toward

DURING hectic days in which Senate and House conferees tried to reach agreement on the 1981 farm bill, a senior Senate Agriculture Committee staff member munched on bland crackers and sipped skim milk while working endless hours, and the committee's chief economist kept a bedroll in his office in case he couldn't get home at night. The House Agriculture Committee's press secretary each night revised figures in a news release he hoped to get out when—and if—agreement was reached.

Tempers grew short. Conferees more than once confided they did not think a farm bill would emerge from their long hours of toil. There were too many differing views, too many special interests tugging in opposite directions.

But victory did come. The conferees came to terms. Then the Republican-controlled Senate easily passed the Agriculture and Food Act of 1981. Although the House was dominated by Democrats who wanted a more liberal bill, the measure squeaked through there in a 205-203 cliff-hanger vote during the waning moments of the first session of the 97th Congress.

A year's work had been completed, and a complex package of legislation was on its way to Ronald Reagan for signature. The President's approval was assured because the $11 billion in spending under the four-year bill was only slightly above the $10.6 billion limit he had set—and $5.6 billion below what the House had originally O.K.'d.

And the cost to the government was far below that of a four-year farm bill passed in 1977. The tab for that legislation was estimated at $24 billion—or $35 billion in today's dollars.

The 1981 bill, which extends and modifies the 1977 measure, sets government pricing objectives for major agricultural products in America. It deals with such diverse areas as rural housing, conservation and agricultural research. It even sets up a credit fund to encourage shipments of American farm goods to markets abroad. There is a separate section dealing with the

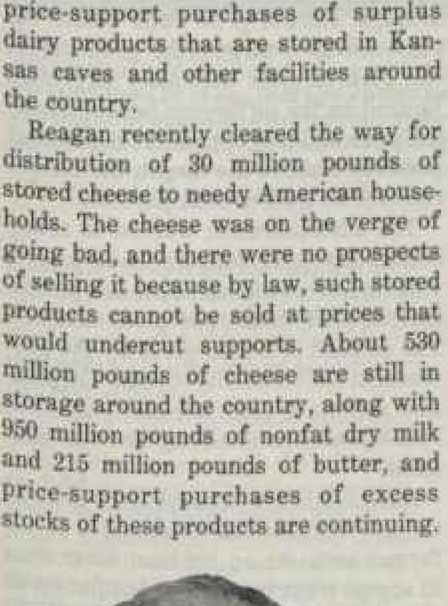
a Free Market in Farming

multibillion-dollar food stamp program.

Though designed to instill an element of stability into the unpredictable business of farming and ranching, the bill touches the lives of everyone.

The candy bars you buy will be affected by the bill: Its sugar program, some say, could increase Americans' sweetener costs as much as $1 billion a year if world sugar prices are depressed. Your taxes will be affected: Consider that in 1980 the federal government spent more than $1 billion on price-support purchases of surplus dairy products that are stored in Kansas caves and other facilities around the country.

Reagan recently cleared the way for distribution of 30 million pounds of stored cheese to needy American households. The cheese was on the verge of going bad, and there were no prospects of selling it because by law, such stored products cannot be sold at prices that would undercut supports. About 530 million pounds of cheese are still in storage around the country, along with 950 million pounds of nonfat dry milk and 215 million pounds of butter, and price-support purchases of excess stocks of these products are continuing.



Sen. Jesse Helms says four-decades-old programs could not be ended abruptly.

The new farm bill makes the cheese distribution possible. Until its passage, such products could be distributed to institutions, including schools for lunch programs, but not to households, which also might be getting food stamps. Now, at least some of the older stocks of dairy surpluses will be given to needy people rather than allowed to spoil.

Despite the months of work that went into fashioning the legislation, the final product has few ardent admirers.

It has been described as a "bill nobody likes but one everyone can live with." A White House agriculture policy adviser, Burleigh C.W. Leonard, calls it "the bill that almost was." He says the administration proposed a bill that contained some radical departures from past heavy government involvement in farming. But, he says, "When the smoke cleared, we were left with the same old carryovers—an extensively subsidized dairy program and protective programs for tobacco and peanuts. We were on the verge of some monumental changes toward market orientation, but we slipped back down the hill."

Sen. Jesse Helms (R-N.C.), chairman of the Senate Agriculture Committee, defends the measure. He asks, "Do you vote to abruptly end programs that have been in existence for four decades or more, and around which whole communities and families have built their economy?"

Political pressure for continued heavy government involvement in farming is great. Nevertheless, the 1981 bill takes a step toward a more market-oriented agriculture in line with a trend that started in the late 1960s. It does so by lowering "safety-net" price supports under commodities (or at least, in some cases, slowing their rise), building in an incentive to reduce dairy surpluses and eliminating a barrier to farmers who want to grow peanuts.

The movement toward a free market began after more than 30 years of deep government involvement in agriculture. Virtually all federal farm programs were started during the Depression,

Rep. E (Kika) de la Garza says U.S. farmers are in deep economic trouble.

when droves of farmers walked off the land because they could no longer make a living from it. The programs were geared to give farmers and ranchers an economic incentive to produce an adequate supply of food and fiber. In recent years, lawmakers have struggled to find a balance between protecting farmers and burdening taxpayers and consumers with excessive costs.

As Agriculture Secretary John R. Block puts it, "No farm bill comes easy." And agreement on this one was made all the more difficult because—for the first time—the two agriculture committees had to operate under stringent budgetary constraints. "In the past," says Helms, "the sky was the limit on farm programs."

The difficulty was compounded by the fact that farm income is down—some economists say it is at its lowest point in real dollars since the Depression. C.T. Fredrickson, senior deputy governor of the Farm Credit Administration, which regulates certain private lending to farmers, estimates net farm income last year at $20 billion and says it is expected to range from $15 billion to $18 billion this year. "These numbers compare with an all-time peak of $33

billion in 1973," he says. "In constant dollar terms, net farm income in 1982 could be about one third what it was in 1973."

Rep. E (Kika) de la Garza (D-Tex.), chairman of the Democratic-controlled House Agriculture Committee, is not inclined to praise the bill: "We prepared a bill that, because of budget and other pressures, was disappointing even to those of us who felt it was preferable to the available alternatives. Now that it has been passed, we should concentrate on using every fiscally responsible avenue to help farmers survive. We must face up to the fact that farm economy is in deep trouble today."

How do farmers themselves feel about the bill? And what do processors of agricultural products think?

By and large, farmers have voiced more concern over interest rates and rising production costs than they have over the omnibus farm bill per se. But they have been vocal about provisions that directly affect their own brands of farming.

DEBATE on the bill's dairy provisions almost deadlocked the legislation out of any chance of approval. The administration wanted support prices lowered enough to reduce the government's obligation to spend billions to buy mounting surpluses of dairy products, while dairy lobbyists argued that production cost increases justified high support. The final version did not satisfy either side. However, the bill holds the line on milk price supports for 1982, keeping them at the 1981 level of $13.10 per hundred pounds. And the support price will rise when government surplus stocks are substantially reduced, giving dairy farmers an incentive to cut production starting in 1983.

The dairy provisions constitute another step in a decade-long walk away from dependence on the concept of parity in farm price-support programs. Often misunderstood, parity is simply a formula for determining price support based on an average price that agriculture producers received during a base period, 1910-1914. Theoretically, at 100 percent of parity the price for a bushel of wheat produced today would buy the same goods and services it did then. The concept, however, fails to take account of rising productivity—a big factor in dairy farming.

Says Walter Martz, president of the Maryland and Virginia Milk Producers Association, "The farm bill hastens what was going to happen anyway—that is, get production more in line with what the market will bear."

Steve Graybeal, who with his brother has 350 milking cows in northern Maryland, says, "It certainly is a dilemma. On the one hand, we're producing too much milk, but on the other, government support is needed to assure we will have an adequate supply of food in this country. If you have economic incentive to produce, then you have food. We don't want to destroy that."

Controversy over wheat and livestock feed grains programs also came close to derailing the farm bill. Much of the argument centered on arithmetic—how much target prices and loan rates should be raised. Though the administration opposed the concept of target prices, it recognized that congressional sentiment made their continuance inevitable. It successfully negotiated with conferees on the bill to keep the target prices at modest levels.

Target prices work this way: If the average market price falls below the price set as a target, the government will give farmers deficiency payments figured on the difference between market price and target price. If the market price rises above the target, the farmer receives no government payment.

The administration wanted to retain commodity price-support loans to provide farmers with cash flow and protection against disastrous price declines. The amount of a loan given by the government's Commodity Credit Corporation reflects a price per unit—the loan rate—predetermined by the government.

Such loans are nonrecourse. That is, the government has no recourse if the farmer defaults on his loan other than to accept what the farmer has put up as collateral. If the government lends $4 on a bushel of wheat and the market price goes above $4, the farmer repays the loan and sells the wheat. If the price drops below $4, the farmer turns the wheat over to the government in full payment for his loan.

The administration insisted—successfully—on authority for the Secretary of Agriculture to hold the amount of the loan per bushel below the market price of the crop, thus encouraging the farmer to pay off the loan and sell the crop himself. This should help the government avoid the cost of accumulating huge grain surpluses, as it did in the 1960s.

Jim R. Billington, an Oklahoma wheat farmer and president of the National Association of Wheat Growers, says, "Many of our states were bitterly

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ADVERSE REGULATION HINDERS UTILITIES IN CAPITAL MARKETS

By Claire V. Hansen, C.F.A.

President and Chief Executive Officer, Duff and Phelps, Inc.

Claire V. Hansen, president of Duff and Phelps, Inc., is a recognized authority on valuation and a certified financial analyst.
For more than 50 years, Duff and Phelps has provided investment research and financial analysis to institutions and corporations. The firm has long been a leader in utility investment research, tracking more than 200 utility companies across the country. In addition, Duff and Phelps issues credit ratings on fixed income securities and commercial paper.

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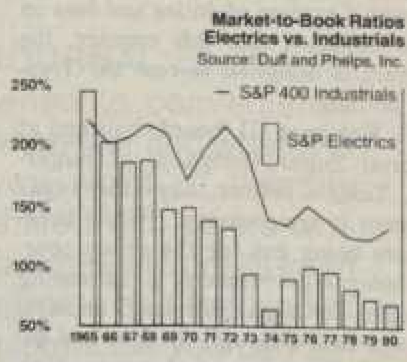
Claire V. Hansen



How D&P Rates the Regulators

In addition to rating utility company securities, Duff and Phelps rates state regulatory commissions. It looks for:

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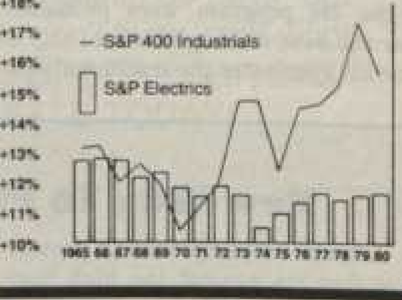

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disappointed with the final agreements. At the same time, wheat growers had realized the difficulty of passing a farm bill with adequate protection, given the restrictions of the budget constraints. But we don't consider the matter of price protection for farmers closed."

Also highly controversial in the farm bill is the sugar program, a new entry into such legislation. The loan rate was set at 17 cents a pound on raw sugar for 1982, with step-by-step increases bringing it to 18 cents in three years. Through a system of duties and fees on sugar imported into this country, the program is designed to cost the Treasury nothing.

I.H. Kempner III, board chairman at Imperial Sugar Company, of Sugarland, Tex., a refiner, says the sugar program is unnecessary. "While benefits are being cut for the urban poor, the federal government is increasing subsidies for sugar farmers," he says. He says that although the fees and duties will keep imported sugar high enough so the federal government doesn't have to support domestic sugar with loans, American consumers will be paying "$1 billion more yearly in nutritional sweetener bills." Sugar producers, however, argue that the program is necessary to promote price stability. In the past, they say, prices have fluctuated wildly, sometimes hurting producers and other times hurting consumers.

While changes in the peanut program—another highly controversial area of the bill—were at first bitterly opposed by farmers, they finally realized that those who were protected under the old program were protected under the new, although less so.

The bill eliminates the traditional system of acreage allotments for peanuts. Allotments in effect are franchises, based on historical production, given to farmers to raise certain crops on government-limited acreage. Once a farmer has an allotment, he can sell or lease it, under certain restrictions, and a new farmer cannot get one except through lease or purchase. This system, applied to tobacco as well as peanut farming, has created controversy because of its closed-shop nature and because the allotment holder often is no longer a farmer but is leasing his franchise to someone who is.

"No farm bill," asserts Secretary of Agriculture John Block, "comes easy."

Though it wipes out that limitation on peanut production, the bill retains another—the farm marketing quota system. Under this system, the government offers price support only for the amount of a commodity that falls within a farm's poundage quota, an amount set on the basis of the farm's production record and the commodity's overall market potential.

Thus, even though the bill permits anyone to grow peanuts, new peanut farmers will not be eligible for marketing quotas and the support price, which is rising. The bill raises the nonrecourse loan rate for quota peanuts from the 1981 level of $455 a ton to $550.

Carlton Butler, a Suffolk, Va., area peanut farmer, worked diligently to "save" the peanut program. He is not completely satisfied with the program under the bill, "but it's better than not having a program at all." Butler says elimination of the program would have created economic disaster in peanut-producing areas.

Many believe that defeat of the allotment system in the peanut program is a real chink in the armor of the peanut and tobacco subsidy programs and makes the eventual dismantling of these programs more likely.

AMERICA'S farmers are the world's most productive. And the rest of the world is growing as a marketplace for their output. The products of one out of three U.S. farm and ranch acres are now sold abroad, accounting for roughly one sixth of total U.S. exports. A record for dollar volume of food exports was set in fiscal 1981—a whopping $43.8 billion, up from $40.5 billion the previous year.

To help increase agricultural exports even further, the farm bill sets up—but does not authorize an appropriation for—an Agricultural Export Credit Revolving Fund. The Agriculture Department would make loans from the fund on commercial-style terms. Only one appropriation would be required, and after that, repayments and interest would generate money for future loans.

This omnibus legislation that took a year to put together sets policies in these and other areas for four years. Or does it?

A senior staff member on one of the agriculture committees, noting the unhappiness with the bill expressed by such people as National Association of Wheat Growers President Billington, says, "We may be through with the 1981 farm bill. But don't relax. We'll have a farm bill every year." □

New Way To Protect Farmers ?

A brand-new approach to protecting farmers against the high business risks they face—an approach that could supplant much or all of present federal subsidy programs—is to be investigated by the Department of Agriculture.

Under this approach, a comprehensive income insurance program would be set up.

Farmers would participate on a voluntary basis, and the program could be privately administered, with the federal government subsidizing part of the cost. Under this proposal there would be no incentive for farmers to produce in excess of market demand.

Study of the approach was suggested by E. Clinton Stokes, who is director for food and agriculture of the Resources and Environmental Quality Division of the Chamber of Commerce of the United States. The insurance program has the Chamber's support. The study is called for in the 1981 farm bill.

The U.S. Chamber urged that the study include prospects for the proposal's acceptance by producers.

Why Thatcheromics Isn't Reaganomics

Supply-side policies haven't really had a test on the other side of the Atlantic.

By Stuart Butler

BRITAIN has long occupied the role of time machine in the minds of some American political pundits. If you want to know what will happen in this country within the next decade or so, they say, just cast a glance across the Atlantic.

Under Margaret Thatcher, Britain has a particular significance for students of the time-machine school. They see an indicator of the ghastly future under Reaganomics: mass unemployment, urban riots, a crumbling economy, political suicide. One newspaper cartoonist spread seasonal cheer recently by depicting Prime Minister Thatcher as Dickens' Ghost of Christmas Yet To Come, an apparition of future misery and chaos before a cowering and unmistakably Scrooge-like Ronald Reagan.

PHOTO: JOHN TROHA—BLACK STAR

The President and the Prime Minister: Not Tweedledum and Tweedledee. Their programs differ so much that Britain's fate cannot be said to foretell our own.

Critics of President Reagan's administration have been pushing the notion that Britain represents a textbook case of supply-side economics in action. If they're right, America is in deep trouble. In the 2½ years since the Conservatives gained power, the British economy has taken on the characteristics of a bombed-out industrial site. Manufacturing output dropped 17 percent within two years of Thatcher's taking up residence in Downing Street—a steeper decline than during the worst years of the Great Depression. Unemployment has topped 11 percent—a 40-year high—and is still rising. Almost every blue-chip corporation has been shedding workers in great numbers. Even the swashbuckling Freddie Laker was forced to go cap-in-hand to the banks last year to keep his Skytrain transatlantic passenger service in the air. It has been enough to weaken the stiffest of upper lips.

The curious thing about the so-called Thatcher experiment in supply-side economics, however, is that if we look behind the headlines and rhetoric, we can find almost nothing that conforms to the monetarist and supply-side amalgam we call Reaganomics. Every element of the sacred triad—tight monetary control, lower taxes and expenditure cuts, to say nothing of that optional extra, balancing the budget—has fallen by the wayside.

Despite talk of tough monetary controls and much nagging of the Bank of England by Thatcher, the money supply has been increasing at about double the government's target range (the broad aggregate, M3, rose almost 20 percent in 1980). The government seems to be getting the rate of increase closer to its 10 percent target, but anyone would have difficulty arguing that the British economy is being crushed in a monetary vise.

Nor is Britain some classic proof that supply-side across-the-board tax cuts cannot produce growth without inflation. Income taxes were indeed reduced in the first flush of Conservative rule, particularly at the top brackets, where the confiscatory 98 percent rate on un-

STUART BUTLER, *a British economist, currently lives in Washington, where he is a consultant to the Heritage Foundation and a senior fellow at the National Center for Neighborhood Enterprise.*

earned income was brought down to 75 percent. But the cut in rates was much more modest for the average taxpayer, and inflation and payroll tax increases have eaten away at even these reductions. The London *Economist* calculates that a married couple with average earnings will actually be paying a higher proportion of their income in taxes by April than before Thatcher took office.

Even the cutback in the government sector, which formed the heart of the Thatcher strategy, has failed to materialize. Under the Conservatives, government expenditure as a proportion of national output has increased from 41 percent to 44.5 percent. Ironically, the proportion fell 5 percent during the last three years of the previous Labor government.

And even though the tax collector's share has increased under the Conservatives (supply-side purists would say because of it), budget deficits have lurched way over target. Even if the government narrows the gap from 6 percent of national output to 4.5 percent in 1982, in line with its revised goal, this would still mean the equivalent of a $125 billion deficit in the U.S.—substantially greater than the record $99 billion U.S. budget deficit that the Office of Management and Budget has forecast for this year.

So we have in Britain a supply-side experiment that consists of increases in taxes, a rapid growth in the size of government and an expansion in the money supply surpassed only by France and Italy among major Western countries. No wonder Arthur Laffer and Jack Kemp have disowned the Iron Lady.

If analysts in America want a British example of tightwad conservative policies, they would do better to examine Thatcher's Labor predecessors.

Why has Thatcheromics been such a poor guide to Reaganomics? Supply-siders now dismiss the Prime Minister's policies as virtually the antithesis of their economic plan for America, but the Conservatives certainly seemed intent on slashing taxes and government spending when they entered office. Something went dreadfully wrong.

THE REAL QUESTION to be asked, perhaps, is whether realities will conspire to thwart the President, just as they seem to have derailed the Prime Minister.

The short answer is maybe. But understand that British politics and institutions are very different from those in this country, and the task facing Thatcher is far more daunting than that confronting Reagan. Britain's problems are so immense that it is a poor laboratory in which to test anything. Even the best of doctors would have trouble reviving a corpse.

When the air traffic controllers violated their union contracts, Reagan could fire them—and did.

Thatcher's hands are tied: The unions, which represent almost all public employes, have legal immunity.

The public sector in Britain presents probably the greatest obstacle to a Reagan-style policy, as Thatcher quickly discovered. It is much larger than that of the U.S. in proportion to the private sector, and it dominates the economy. Thirty percent of the work force is employed by government, either on government payrolls or as employes of the government-owned industries.

These nationalized industries, moreover, are the backbone of the economy. The coal mines, steel companies, much of the auto industry, the telephone system, the utilities and many other vital industries—all are in government hands.

Add to these the countless private companies that supply the nationalized companies, and we find a private sector that is virtually dependent on the government budget. Like addicts, many private firms in Britain are hooked on government.

Because the public sector has a life of its own, and because it determines the lives of almost everyone else, Thatcher has found it extremely difficult to cut. It is simply too big and too powerful, and too many people are entangled in it. The leviathan has thereby managed to insulate itself from many of the changes taking place in Britain. As British economist John Burton notes in his study, *The Thatcher Experiment: A Requiem?*, only 3,000 civil servants were fired in the first 18 months of the Thatcher administration, while close to 750,000 private sector workers lost their jobs.

Recently, the nationalized industries have been forced to bear more of the brunt, but it has been a bloody political battle for the Prime Minister. And the small successes now being seen in Britain—a lower inflation rate and significant improvements in manufacturing productivity—are confined to the private sector. The publicly owned firms lag far behind.

Thatcher has also had to deal with powerful trade unions, which represent over half the work force (and virtually 100 percent of employes in the nationalized industries and major private corporations). British unions are infamous for their restrictive practices and almost total immunity from legal restraint—labor contracts, for instance,

The havoc now being wreaked in the British economy is the price for decades of artificial prosperity.

are gentlemen's agreements. They cannot be enforced in the courts.

The combination of huge public sector and powerful trade unionism has resulted in an economy that has grown ever more distorted and inefficient. Between 1973 and 1980, for instance, output per worker in British manufacturing rose less than 1 percent; hourly earnings in the same sector increased 213 percent.

UNFORTUNATELY for Thatcher, she took office when things were rapidly falling apart. The havoc now being wreaked in the British economy is the price for decades of artificial prosperity, not the result of British-style Reaganomics.

The Prime Minister's hand has been further weakened by the fact that she was not elected in a backlash against previous governments' failure to change direction.

There was no groundswell like that which carried Ronald Reagan to the White House. What the British wanted was someone who would take the country back into the fantasy land of a secure, riskless welfare society—and do it painlessly.

An electorate with no stomach for unpleasant medicine is only one of Thatcher's worries: Her Conservative Party is not even Thatcherite.

"Margaret took power in a coup," a former Thatcher cabinet minister remarks. She became leader of the party because she was the only politician with the nerve to challenge former leader Edward Heath, who had lost two elections in a row, and because of her personality, not her philosophy. Politically, says the former minister, "she's an aberration."

So Britain has a Prime Minister who does not represent the centrist, consensus disposition of either the British people or the Conservative Party. If she had been free to choose her own cabinet—a luxury she did not have—she might have been able to impose her right-wing approach on Parliament and the country.

A British Prime Minister continues in office by controlling the House of Commons, and he or she must assemble a cabinet of members of Parliament who represent large blocks of votes in the majority party. British cabinet members are not like their American counterparts, who can be fired or taken to the woodshed when they get out of line. The British cabinet is more like a committee of governors of warring provinces who negotiate policy with their chairman.

The present British cabinet is certainly no set of Thatcher clones. About one third of its members, disparagingly called the Wets by the Thatcherites, are left-wing Conservatives who are either hostile to or highly skeptical about the Prime Minister's views. Another third could be classed as true believers. The remainder are senior, undoctrinaire politicians who can demand a place in almost any Tory cabinet. Thatcheromics is the strange bundle of inconsistencies that result from the horse trading among those factions.

Ronald Reagan has faced many obstacles and pressures, and it has taken a great deal of luck and political savvy for him to avoid the traps set for him. But if he had been elected President of an America with political and economic problems of the magnitude of those that greeted Thatcher when she entered 10 Downing Street, Reaganomics, like Thatcheromics, might soon have ground to a halt.

Not that Reagan is out of the woods. Despite talk of draconian budget reductions and massive tax cuts, the reality is that the President has only slowed the acceleration of government spending and taxes.

Like Thatcher, Reagan has yet to make a frontal assault on the segment of public expenditure that has undergone the most explosive growth on both sides of the Atlantic—entitlement programs.

Failure to do that forced the Thatcher government recently to increase a range of payroll taxes, duties and charges. A similar failure has left the President surrounded by an unholy alliance of liberals and budget balancers who are trying to persuade him that taxes must go up. It's a familiar story to a British visitor.

THE REAL LESSON to be learned from Thatcheromics may be even more chilling than most Americans appreciate. Far from being living proof that Reaganomics will not succeed, as many critics of the administration maintain, it may instead be proof that an effective program of tax cuts and spending reductions simply cannot be carried out because of political pressures.

Many pessimistic conservatives believe America has already passed the point of no return, with the government sector consuming and determining such a proportion of national output that it has acquired a life of its own. According to them, President Reagan can do little more than slow the inexorable growth of the public sector.

On the other hand, although the scale of U.S. government is becoming more and more like Britain's, the nature of the government sector is different here. Government does not pervade the economy in the British manner.

And as the air flight controllers have come to understand, unionized public workers can be fired. So unless we believe that those and other distinctions between Britain and America are insignificant, we have no reason to assume that Reaganomics is destined to remain an untested theory. □

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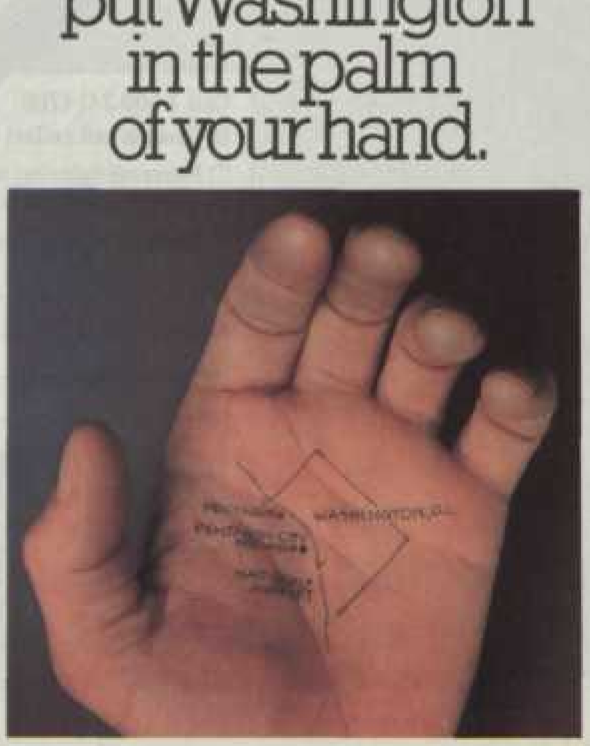

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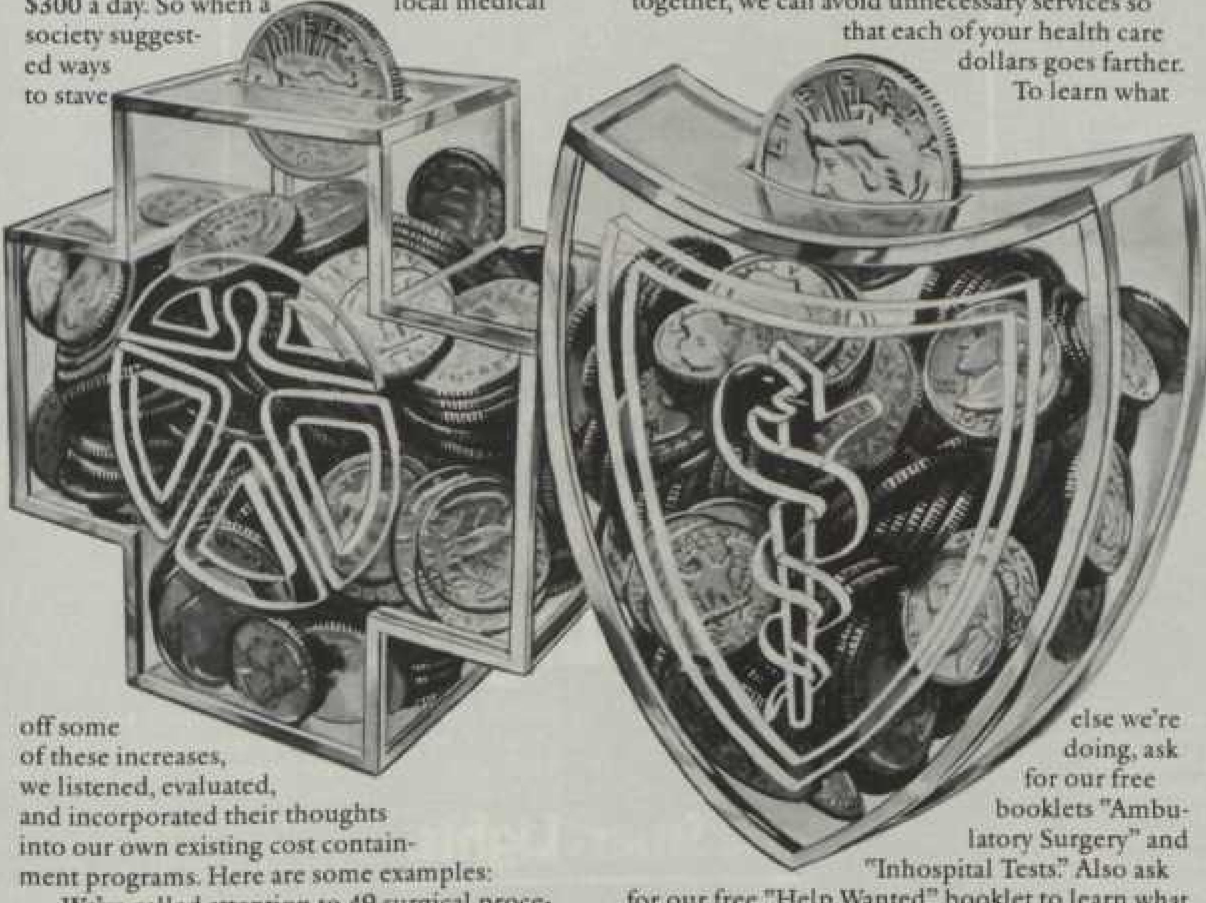

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A Fairer Shake For Small Business

Two "milestone" laws—
known as Regflex and Equal Access—
are shaking up bureaucrats.

By Michael Thoryn

SAYS an irreverent Capitol Hill staffer, "Regflex goes after crazy regulations and Equal Access aims at crazy enforcement." His quip sums up the intent of two laws hailed as "milestones" and "significant wins for small business" when they were passed in the fall of 1980.

The Equal Access to Justice Act, which took effect in October, is intended to tear a hole in the deep pockets of litigation-happy federal agencies. Small business people can now recover their legal fees from the agency budget when they challenge a tax or regulatory ruling and win. Supporters say the act restores balance between citizens and government when a disagreement arises.

The Regulatory Flexibility Act, which took effect a year ago, requires the federal government to tailor regulations to the ability of small firms to comply. It is slowly taking hold: Federal agencies and departments, with some reluctance, are revising or dropping burdensome rules.

"It's really good to see something work," says Rep. Andy Ireland (D-Fla.), who labored for three years to move the Regflex legislation through Congress. Ireland, chairman of the Small Business Subcommittee on Export Opportunities and Special Small Business Problems, plans regular oversight hearings to make sure the intent of Regflex isn't scuttled.

Government agencies are now required to give public notice of impending major rules so small business can comment; to weigh the effect of proposed rules on small business; to explain the need for and objective of each proposed rule; and to review all existing rules within 10 years with an eye toward eliminating those that aren't needed.

Regflex sits well with Robert E. Carr, president of Seacor, a marine engineering firm in Cherry Hill, N.J. A delegate to the 1980 White House Conference on Small Business, Carr observes: "Regulatory agencies have made a living out of beating up on the small guy, who had no defenders."

Ireland says Regflex's impact is difficult to measure because of the difficulty of separating it from the impact of two other deregulatory efforts—the Reagan administration Executive Order 12291, which directs the Office of Management and Budget to monitor regulations for cost effectiveness, and Vice President George Bush's Task Force on Regulatory Relief.

Monitoring Regflex compliance at federal agencies is a top priority of the Small Business Administration, says Administrator Michael Cardenas. Frank Swain, SBA's chief counsel for advocacy, whose office the act charges with making sure that Regflex works, likes much of what he surveys. "The act is well on its way to becoming the landmark legislation many believed it to be," Swain says.

It may also be a path to redemption for the often criticized SBA. The agency's loan and management assistance programs help relatively few of the estimated 10 million small businesses. Regflex gives SBA a chance to work for—and thus protect—its entire constituency.

DOES SMALL BUSINESS need protection? Small banks must struggle with the same forms given to giant rivals. A 1980 Department of Energy regulatory analysis proposed an energy efficiency rule for appliances that would have put 80 percent of appliance manufacturers out of business;

PHOTO: WAYNE PARTLOW

Regflex compliance at federal agencies is a top priority of SBA Administrator Michael Cardenas (left) and his chief counsel for advocacy, Frank Swain.

the rule was withdrawn after protests from business groups.

Regflex does not lengthen the regulatory process dramatically, but it does add a few more steps. The required analysis is "basically a self-help mechanism for the federal regulator, making him think before acting," Swain says.

Among the new considerations: Regulators must estimate the number and kind of small firms a regulation will affect and make a detailed evaluation of the reporting, record-keeping and compliance requirements they anticipate.

As you might expect, agencies aren't enthusiastic about Regflex. Most haven't had to consider small business needs before.

"Bureaucrats are making a stab at it," says Jere W. Glover, a top official in SBA's advocacy office during the Carter administration. "However, I sense an undercurrent of 'Oh my, what am I going to do?' "

Voices rose at Regflex oversight hearings last October when Commissioner Bevis Longstreth of the Securities and Exchange Commission said Regflex was a burden—to the SEC.

"The Regflex act has added little of value to our processes while at the same time imposing internal burdens," Longstreth said. Why, he asked, does the agency have to spend extra staff time on regulatory analysis and review?

"We're not here to discuss the inconvenience to your staff," snapped Rep. Ireland. "You are complaining about your workload. We're concerned about the day-to-day workload of small businesses."

While the SEC, which has simplified stock issue requirements and reporting rules for small business, wishes compliance were easier, the Department of Defense and the Internal Revenue Service don't want to comply, period.

IRS says it only interprets laws and doesn't write regulations—and therefore it can generally ignore Regflex.

"That interpretation [of the act] is unacceptable," says the SBA's Swain.

The Department of Defense argues that military functions are exempt from the Administrative Procedure Act, which Regflex amends. New legislation may be needed to snare the two holdouts.

Other agencies are already complying:

- The Interstate Commerce Commission has eliminated the requirement that small motor carriers file annual reports with the commission.
- The Labor Department is planning to eliminate a piece of Davis-Bacon Act paper work—a weekly report on each worker. Davis-Bacon requires contractors to pay prevailing wages—usually the highest union wage in the area—on federally funded construction projects.
- The Department of Transportation is holding public hearings in the evening to enable small business people to attend.

For Regflex to build on its success—and not be just another regulatory procedure—constant monitoring is needed by both SBA's advocacy office and small business groups. The advocacy office, which has about 25 professionals working on Regflex, aids the writers of agency regulations, tracks their progress and reviews their efforts when regulations appear in the *Federal Register*. But the real check on abuses, Ireland insists, "is the small business person and his trade association. If silly rules start creeping back in, I'll hear about it."

PHOTO: KEN DAVIDSON

Since the signing ceremony, Rep. Andy Ireland has been Regflex's congressional watchdog.

FEDERAL AGENCIES may not be prepared for Equal Access. "I get the impression agencies will not give Equal Access nearly sufficient thought until some agency gets banged," says Raymond S. Wittig, minority counsel for the House Small Business Committee, adding that eventually there will be "plenty of government losses."

Wittig points out that government attorneys lose about 25 percent of their cases. His best guess for the first small business victory: the Occupational Safety and Health Administration. "Equal Access applies to existing cases, and about 90 percent of cases that come to the OSHA Review Commission are overturned," Wittig says.

To be eligible to recover fees and related costs—the top rate is $75 an hour—businesses must have had a net worth of less than $5 million or fewer than 500 employes when the action was filed. Individuals' net worth at the beginning of proceedings cannot exceed $1 million.

Equal Access has five key provisions:

- It is irrelevant whether it is the government or the taxpayer who initiates litigation.
- It is not necessary to prove bad faith by the agency.
- The agency must show that its actions were "substantially justified."
- It is not necessary to prevail on all issues to receive an award.
- There is no dollar limit on awards.

Unfortunately, says Steven F. Holub, national director of tax services at the Laventhol & Horwath accounting firm, the act "has a gaping hole in terms of protecting taxpayer rights." It does not apply to the U.S. Tax Court, which is where litigants often try to get their cases heard, since they may dispute their taxes with IRS without first having to pay the tax allegedly due.

Holub adds, "Equal Access is going to help the small business executive only if he wins. Companies have to weigh the hazard of litigation—they might lose."

Glover, the former official of SBA's advocacy office and now a Washington attorney, points out that if the government agency loses, the money would come out of the agency's budget. Therefore, he says, "the government might think twice about the cost of litigation and change the kind of issues it contests. That is the cure the law envisions."

To Rep. Ireland, Regflex and Equal Access represent "a big stick for attitude change—the bureaucracy must consider small business needs."

It's an important change for millions of small business people. □

Tapping Unused Riches in the Slums

By Gerson Goodman

THE ENGLISH LANGUAGE is not exactly the forte of John Mariotta, founder of the Welbilt Electronic Die Corporation in New York City's notorious South Bronx. Born of Puerto Rican immigrants, he had little chance to polish his verbal skills. Still, his business has an annual sales volume of $12 million.

But this is a success story not so much about Welbilt's owner as about Welbilt's workers—ghetto youths and hard-core unemployed who learned a trade and discovered the work ethic.

With odds like those for a snowball in hell, John Mariotta (left) and Fred Neuberger have succeeded in the South Bronx.

Mariotta was 36 when in 1965 he set up Welbilt, his fourth attempt to go into business. Fred Neuberger, now vice president and part owner, was the needed extra ingredient, Mariotta says. An experienced sales engineer, Neuberger brought Welbilt its first big contract, for air filter assemblies for Bell helicopters.

Today, the Welbilt plant stands like a beacon in a sea of residential and industrial deterioration. While remaking society's castoffs into operators capable of running the latest in computerized metalworking machinery, it has become a respected supplier of precision parts and assemblies to the armed forces and the defense industry. The firm has won increasingly larger private and government contracts.

Teaching the unskilled was not a matter of choice, since getting machinists to commute to Welbilt was—and still is—impossible. Job hunters quickly lost interest when they found out where the factory was.

"How are you going to make machinists out of semi-illiterates?" parts buyers for the big corporations would ask him, Mariotta recalls. But he has done it, motivating his workers with the homilies of a Benjamin Franklin rather than the formulas of a Ph.D. in labor relations. Among the doubters that are now convinced are General Electric and TSARCOM (Troop Support and Aviation Readiness Command).

Mariotta still interviews every job applicant. "I tell them, 'You got to work hard. You got to learn.' "

Once he is convinced an applicant can be counted on, he hires on the spot. No effort is made to check references. "What do I care about the past?" he demands. A note of intensity colors his voice. "What if he did commit a crime? Today, right now, he wants to work. That's the only thing that counts."

Mariotta's unorthodox procedures stem from this conviction: Most people abhor idleness. But language and educational deficiencies, not to mention prejudice in hiring, bar some from decent opportunities, he contends.

"Everyone is saying, 'What are we going to do about the South Bronx?' " Mariotta growls. "Everyone is saying, 'You can't teach those so-and-so's anything. You can't get them to come to work on time.' Well, it's not so. I say to them, 'Maybe we have no education, maybe our manners aren't up to par, but this is where it's at between you and me: If you're willing to work, I'll increase your salary.' "

Chico is a good example, Mariotta says. "One morning, in walks Chico with a cigar box under one arm. He says he is working in a hotel, washing dishes. In Mexico he was a mechanic, but here no one will hire him because he doesn't speak English. I ask him what's in the box. He shows me a mike, a 4-inch caliper, two C-clamps and a 6-inch rule. They are all brand-new. I say to myself, if he spent half a week's pay to buy tools, he must really want to learn. So I put him on. When he came to the shop the next morning, he didn't even know how to turn the saw on. But day after day, we stood beside him at the bench till he learned."

The plant, which has never been struck, was organized by the Teamsters in 1974 after peaceful negotiations. "Our relations with the union are extremely cordial," Neuberger observes. "The attitude here is so good that the pilferage and vandalism that plague other industrial enterprises are nearly nonexistent."

Workers who have become supervisors have seen Mariotta fulfill his promises. A bonus arrangement instituted in 1980 pays $1,000 each to first-line supervisors for every $1 million the plant ships. The incentive plan, which added $10,000 to each supervisor's income last year, has also fostered interdepartmental cooperation, Mariotta says.

WHAT THE KIDS he recruited from the streets would have become had there been no Welbilt is a thought that stokes Mariotta's contempt for the nation's multibillion-dollar welfare system. "Everyplace in the U.S. where there is a South Bronx, we have more unused riches than all the Arab oil countries put together," he argues. "Our riches are in our people who want to work. Let the businessmen and the government put factories here where the people are, and you'll see how fast those billions will shrink." □

GERSON GOODMAN *is a New York City-based writer on business subjects.*

Penniless Chief Executive

Brother Timothy runs a big, profitable business, but he doesn't even own his toothbrush.

By Julian Morrison

A CENTURY AGO a member of a small band of Christian Brothers sold a bottle of homemade wine to a neighbor and started an enterprise whose scope he could never have imagined.

Those few Brothers, the first of the Roman Catholic order of teachers to venture west of the Rockies, had bought a parcel of land northeast of San Francisco, near Martinez, that happened to include 12 acres of grapevines. Being frugal, they taught themselves to make wine just to keep the grapes from rotting on the vine. They squeezed the grapes in a long wooden trough, let the juice ferment and drank it themselves—their own table wine.

It must have been pretty good stuff for homemade because once the word got around Martinez, the Brothers discovered they had something to offer besides education.

Today, with U.S. wine consumption in a strong uptrend, the Christian Brothers winery is a major factor on the domestic wine scene.

It is, in fact, first in sales of brandy and 11th in sales of wine, according to Brother Timothy, its cellar master and wine chemist for nearly half a century.

If not for those Martinez vineyards—and Brother Timothy—the Christian Brothers might still be famous only for their schools.

Founded in 1680 in Rheims, France, by a nobleman-priest, St. Jean Baptiste de La Salle, the Christian Brothers Order is dedicated to education. The Brothers are neither priests nor monks but laymen who devote themselves to a religious life, taking vows of poverty,

chastity and obedience and sharing a communal existence.

They number approximately 10,000 today, scattered in 80 countries, and they operate more than 1,000 schools. In the United States 1,650 Christian Brothers teach in 105 schools. The financing of the schools is the *raison d'être* of the Brothers' wine-making enterprise. All profits go into education.

THE BROTHERS' BUSINESS grew slowly through the 1890s and early 1900s. By the time Prohibition arrived, sales of their wine had expanded into only two other states, Washington and Montana.

But the great dryness failed to close down the winery. "They stayed in business all during Prohibition because they had been making sacramental wine, and the government also allowed the making of so-called medicinal wine," Brother Timothy explains.

Still, it was an almost casual sort of thing. Brother Raphael was in charge in those days, and as Brother Timothy remembers, "he worked by rule of thumb and didn't know much about wine chemistry or wine bacteriology.

"He would look at a tank and take a sample and see whether it was clear, and he'd smell it and taste it. If it wasn't right, if it wasn't bright and clear, he would say, 'We will wait. I will look at that again next month.' He didn't know what to do to take care of the wine. The Good Lord had to do it."

A mischievous grin spreads over Brother Timothy's face. "This Brother Raphael was very pious. He prayed a lot, and he trusted in the Lord, but he made very poor wine."

Brother Raphael had lots of company. "The wine technology of the Prohibition period was nothing at all," says Brother Timothy. "There were very few people who knew anything about wine."

Brother Timothy was not one of those very few. Born Anthony Diener in Elizabeth, N.J., in 1910, he was one of seven children—five boys, two girls. His family moved to Los Angeles when he was 7 years old.

At 18 he decided to join the Christian Brothers "to save my soul. But I had made up my mind that I didn't want to be a priest. I didn't want to sit in a little black box and hear people's confessions. I wanted to study science and be a schoolteacher, teaching science subjects at the high school level. Science was my big interest. I expected to be in a teaching job all my life."

So he attended the order's St. Mary's College in Moraga, Calif., and began teaching science in the order's high schools, first in Sacramento and then in Berkeley. After several years "one of the superiors came to me and asked whether I'd like to be the wine chemist at the Brothers' new property near Napa." He said yes.

And there, in the low hills above the lush Napa Valley, where the Brothers had bought an existing winery and its 150 acres of choice vineyards, the 25-year-old proceeded to turn himself into one of the nation's most respected wine

JULIAN MORRISON *is a free-lance writer based in Washington.*

Brother Timothy keeps an expert eye on vines at the Christian Brothers' Napa winery. The belfry marks the order's novitiate, or training school.

PHOTOS: KEN GARRETT—WOODFIN CAMP

A man with little time for recreation, he enjoys tending flower gardens and also finds pleasure in the winery's collection of exotic corkscrews.

makers. He learned the business the hard way—on-the-job training.

"Wine involves chemistry and bacteriology, and that little bit of high school teaching experience didn't give me a broad background," he says. "I read all the books I could get my hands on, and I asked questions of people who were in any position to help."

One of them was Dinsmore Webb, until recently chairman of the Department of Viticulture and Enology at the University of California at Davis.

Webb's graduates hold important positions throughout the California wine industry, and he chuckles when a questioner wonders why a graduate enologist has not long since replaced the former high school teacher who wasn't a wine chemist to begin with.

"Brother Tim has been directly in charge of that winery for all these years, so his practical knowledge of wine making is unique in California," Webb says.

"I've watched him dedicate himself to operating the winery, and I've come to have a tremendous amount of respect for him. He's a brilliant man, but beyond that, he has been on top of the problems of running a big winery for so long that it's second nature to him."

One problem he doesn't have is high employe turnover. "Our group of people is much more stable than the average in the wine industry," Brother Timothy says. The key? "Loyalty to the organization, and loyalty to the Brothers. The presence of the Brothers is important to the employes. It makes them feel they are a part of the organization. They understand that the net income of the business is all used in our educational work. So our people feel that they're doing something more than just working for their own salary."

Talks with a number of Christian Brothers employes make it obvious that much of the loyalty is to Brother Timothy himself. But he tries to minimize his role: "I don't know that I have any special style of management. I think I'm understanding of the people who work under my direction; I am not a dictatorial boss. I'm not a guy who's hard to deal with or hard to get along with, as far as I can see. I avoid being bossy or arrogant."

There are 200 employes year-round; the number rises to 300 at harvest time. The United Farm Workers represents the vineyard employes, the Winery and Distillery Workers the rest. Brother Timothy says the fact that the unions are dealing with a religious order "doesn't give us any advantages, but we don't get any unusual troubles, either."

Brother Timothy's enterprise includes the winery outside Napa; wine and champagne cellars and a crushing, fermenting, warehouse and shipping complex in St. Helena, also in the Napa Valley; wine and brandy cellars at Reedley, and a wine cellar at Fresno, both in the San Joaquin Valley.

The Brothers own 1,150 acres of Napa Valley vineyards and 150 hillside acres at the parent Mont La Salle winery just outside the city of Napa. They

grow grapes on another 200 acres in the San Joaquin Valley, and they also buy grapes grown to Brother Timothy's specifications for aperitif and dessert wines, vermouth and brandy.

To age and store this outpouring of the grape, they have barrels with a capacity of 9.5 million gallons in the Napa Valley and an additional 26 million gallons in the San Joaquin Valley.

Though seven Brothers are involved with the winery, Brother Timothy is the presiding genius and the nuts-and-bolts man as well: He was supervising repairs to a leaky pipe when a recent visitor turned up.

This jack-of-all-trades habit is nothing new. On the gridiron for Los Angeles' Cathedral High School football team—a small team—he was a drop-kick specialist, one of the tackles and the substitute center. "I played all 60 minutes of just about every game," he remembers.

Under his guidance, Christian Brothers has obviously been doing more than just one thing right. Last year, on the eve of its 100th anniversary in the wine business, it had sales of $90 million from 2 million cases of wine and 1.6 million cases of brandy.

Since 1938 the bulk of Christian Brothers' worldwide sales has been handled by the San Francisco marketing firm of Fromm & Sichel under a contract that runs until the year 2000.

Brother Timothy points with pride to his vintage bottlings, including a 1969 port, a 1975 sherry, a 1978 Chardonnay, a 1979 Gewürztraminer and a 1975 Cabernet Sauvignon.

Among his achievements he counts a special wine named Château La Salle, which he describes as "light and sweet with a golden color; very fruity." It's the winery's best-seller, a wine that competitors have been trying to duplicate for a quarter of a century—without success, he says. It is produced "basically from a fine Muscat de Frontignan grape," but with the wine maker's traditional secrecy, he declines to be more specific.

The Christian Brothers operation presents an unusual organizational picture, what with its interlocking commercial and religious nature. The producing corporation is Mont La Salle Vineyards, a taxpaying California corporation. It is wholly owned by the De La Salle Institute, a nonprofit entity that receives the profits from the winemaking ventures. Because the institute's work is totally educational, it pays no taxes.

Although Christian Brothers competes in the open market with all other wineries, the corporation enjoys one obvious cost advantage: Its top executives are paid exactly nothing.

The University of California's Webb estimates that if a competing winery could lure Brother Timothy away, his salary "would be in excess of $100,000, with a lot of perks."

It isn't going to happen, of course. He stands on his vow of poverty and owns literally nothing—everything from his toothbrush to the gold pen a friend gave him three years ago on the occasion of his 50th anniversary as a Brother belongs to the order.

Oenophiles' Addiction

Essential to the vintner's art are corks; essential to the connoisseur's pleasure are corkscrews.

The Christian Brothers' collection of corkscrews—more than 1,400 exotic examples—is world famous. Perhaps inevitably, it led to the International Correspondence of Corkscrew Addicts, of which Brother Timothy was the first president. His title, however, was "Right"—because like Henry Clay, he would rather be right than be President.

One of the planet's most exclusive clans, the ICCA limits its ranks to 50 collectors. Among them are lawyers, industrialists, educators, doctors and "just people with tons of money," Brother Timothy says, including an Englishman also addicted to collecting Bentleys. Two dozen people are on the waiting list.

The addicts' annual meeting alternates between a location in the United States and London. Why London? "It's the place for corkscrews," he explains. "All the corkscrews in the world seem to grow legs and travel to London when they get old."

Brother Timothy resigned as Right five years ago but retains the post of chaplain. "I pray for those people who are silly enough to collect corkscrews," he says.

You might expect to see figures scurrying about Mont La Salle in monks' robes, but Brother Timothy greets his visitors dressed in slacks and an open-necked white shirt.

"When we're traveling, we wear a black suit with a black dickey over a white shirt, and when we attend chapel services and at mealtimes, we wear the black robe. But around the winery for everyday garb we wear casual clothes," he says.

RELAXED INFORMALITY, in fact, appears to be a hallmark of Brother Timothy's style. "He's very content, very happy with his life," Webb says.

"His pleasure comes from getting other people to work, from building a sense of loyalty and pride in their work. He is an excellent manager and gets along with people. That winery is so large that most of Brother Tim's problems now are people-managing problems. His contact with day-to-day wine making is not as close as it was 10 or 15 years ago. However, as with any manager, the problems all come to his desk eventually."

As a result, Brother Timothy says, "I don't have much time for television or radio or the newspapers. I figure if it's important, I'll hear about it. The pile of stuff on my desk—things I have to read about the industry, about wine—would drive you crazy. I haven't time for fiction."

Tending the winery's flower gardens is his main recreation, an activity that reflects his obvious love of growing things, "but I'm in the office more than I'm out of it," he says. "Still, I like to poke around, so right after lunch I do some of that, and on Saturday morning and on Sunday before mass I try to get my exercise doing something constructive, even if it's just picking up bottles the tourists sometimes leave around our property."

The competition in the California wine industry in recent years has cut into what little recreation he allows himself. But he welcomes it. "It forces us to produce higher and higher quality at a lower and lower price each year. It helps us bring a bigger value to consumers every year." □

Even at 71, he isn't planning to slow down or stop. "There isn't any mandatory retirement age in the order," he says. "I'm going to keep on going until I'm 140. Then I'll think about it." □

To order reprints of this article, see page 80.

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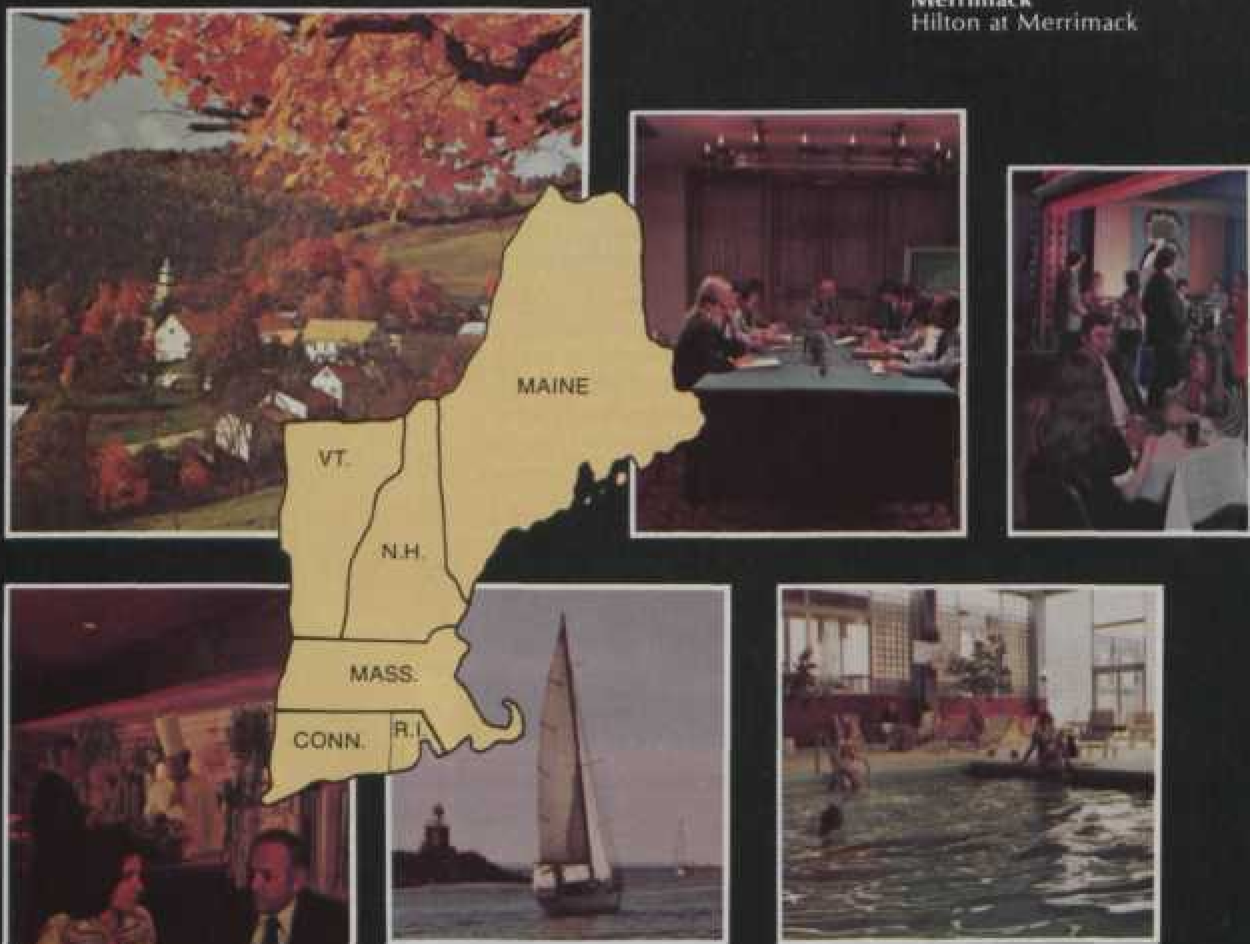

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DEPARTMENT OF ENERGY:

Phoenix or Dead Duck?

Don't be surprised if this agency, once the target of fiery criticism, rises from the ashes. It may be with us for a long time.

By Tony Velocci

CALLING THE administration's plan to dismantle the Department of Energy controversial is like describing the universe as large. Bipartisan opposition in Congress is so intense that DOE could ultimately wind up with a new lease on life.

"The administration's proposal may be penny-wise in the short run, but it's as pound-stupid as anything I've seen in Washington in recent years," says Sen. John H. Glenn (D-Ohio).

Champions of conservation and renewable sources of energy are fighting mad. Even some industries that have opposed DOE since its inception, including petroleum and gas, are no longer calling for DOE's demise because so many of the agency's onerous regulations have been softened or eliminated outright.

There seems to be no consensus within the business community on what DOE's fate ought to be. Recently, NATION'S BUSINESS queried readers on their views, and a majority signaled thumbs-down (see page 80). But major trade associations and many companies that deal with the department from day to day have adopted a neutral position on the issue or would now like to see DOE saved.

Sticking to his campaign pledge, President Reagan is expected to submit legislation to Congress, probably this month, to eliminate the agency. The process is already under way.

In the first phase, the administration is slashing the budgets of almost all DOE programs to a fraction of their original size; nuclear research and development is the only area that has remained relatively intact. Some DOE operations, such as its international division, may be scrapped altogether.

In the second phase, which hinges on congressional approval, the remaining DOE activities, such as long-range R&D, would be transferred to other government departments.

With the barbs removed from much of the department's regulatory apparatus, DOE is no longer a thorn in industry's side. Some of its most counterproductive regulations, such as those stemming from the Emergency Petroleum Allocation Act, have been dropped. In recent months the agency has been engaged primarily in directing long-range research and development and administering essential programs, such as stockpiling oil in the Strategic Petroleum Reserve.

Why, then, proceed with the plan to dismantle DOE? Energy Secretary James B. Edwards, who is committed to implementing the plan, says the reasons go far beyond merely fulfilling a campaign promise. First, the administration believes that since industry now has a much freer hand in energy development, there is no need for a cabinet-level department. Second, some key functions now performed by DOE, such as manufacturing nuclear weapons, have been going on since the 1950s, and these don't require a freestanding, cabinet-level agency, either.

Third, explains Edwards, many of the regulatory functions DOE was created to house have been eliminated, rendering DOE unnecessary. Fourth is the Reagan philosophy toward government: Less is better.

The last four cabinet-level agencies to be created—Education, Energy, Transportation, and Housing and Urban Development—were products of Democratic administrations. "The reason for their formation was to build constituencies, and the result was unchecked growth of the federal government," says a high-level DOE official. "In its proposal to eliminate DOE, the administration is saying, 'Government is already too big and too much of a drain on the economy.'"

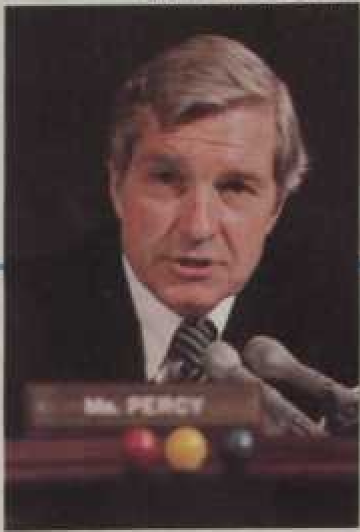
When President Carter created DOE in 1977, it immediately became the eighth largest cabinet department in personnel, with nearly 20,000 employes, and 10th in budget, with $10.4 billion.

It absorbed the Federal Energy Administration, the Federal Power Commission and the Energy Research and Development Administration, inheriting their laboratories and field facilities. It also took over functions from other departments, such as leasing policy from Interior.

EDWARDS is proud of his department's achievements last year in reducing regulations and staff positions and decontrolling oil prices. But he is still convinced the nation would be better off without DOE. "There is only one thing that produces energy, and that's the private sector, which government has hamstrung," he says. "Government has interfered with the marketplace, and consumers are paying for it in the long run."

Among those who agree with Edwards is James B. Ramsey, chairman of the economics department at New York University. "We do not, never did and will not in the foreseeable future need a Department of Energy to supplant the normal workings of the market," he says.

PHOTO: DENNIS BRACK—BLACK STAR



Restoring the funds cut from DOE's budget is a priority of Sen. Charles Percy (R-Ill.).

PHOTO: BRYCE FLYNN—PICTURE GROUP

Drastic energy R&D cuts spell danger ahead, warns Sen. John Glenn (D-Ohio).

Energy Secretary James B. Edwards is facing stiff opposition to plans to ax his agency.

PHOTO: PAUL CONKLIN

In his recent study, *The Oil Muddle: Control vs. Competition*, Ramsey charges that government interference in the marketplace led to the gas lines of 1974 and 1979, magnified the power of the Organization of Petroleum Exporting Countries, increased oil use and imports, and reduced energy exploration and production in the U.S.

In real terms there has been a sharp and continuing decline in overall funding for DOE during the past two years. The department's amended fiscal 1982 budget of $12.4 billion was $4 billion less than the one proposed by President Carter. For fiscal 1983 Edwards is believed to be requesting around $11 billion, with no adjustment for inflation.

Under the Reagan plan, agency functions that survive the budget cuts would be divided between the Departments of Commerce and Interior. Commerce would direct all the government's energy-related research and development programs, set policy for the Strategic Petroleum Reserve and control the nation's $6 billion annual nuclear weapons production program.

Interior would receive only a small fraction of energy-related functions, such as administering the Strategic Petroleum Reserve (policy would still be set by Commerce) and operating government-owned hydroelectric dams.

It seems highly improbable that Edwards' September, 1982, target date for working himself out of a job will be met. Even if the agency is dismantled—a long shot at best—the likelihood is that the end won't come until 1983. For one thing, Congress and the administration will probably remain deeply embroiled in a heated battle over the budget. That could easily delay consideration of any legislation on DOE for weeks or even months after the legislation is introduced.

More important is rising congressional opposition to the administration's plan. Although organized resistance has yet to coalesce, opposition is intense and widespread. Vows Sen. Charles Percy (R-Ill.): "I intend to put the same kind of effort into restoring DOE's budget as I did in helping to kill the antiballistic missile system and the supersonic transport." Members find drastic program cuts unacceptable, and they are looking for fresh initiatives from the administration on virtually all aspects of energy.

There are several reasons for their ire. Some members perceive a growing imbalance in the nation's energy program, with nuclear power favored at the expense of all else, particularly renewables and conservation. "It is essential," says Percy, "that Secretary Edwards, [Budget] Director David Stockman and others in the administration understand clearly the bipartisan commitment in the Congress to a diversified energy strategy."

The fiscal 1982 budgets for conservation and development of renewable resources were cut about 60 percent. For fiscal 1983 OMB recommends that total conservation funding be slashed to $19 million, compared with about $800 million a year ago. For renewables OMB recommends a budget of $69 million, compared with $275 million in fiscal 1982. (The $275 million figure is about half what President Carter proposed for renewables.) Long-range R&D would also be drastically cut back. "These requests can be viewed as nothing but a closeout scenario," says Sen. Mark O. Hatfield (R-Ore.), chairman of the Appropriations Committee.

Which leads to another reason why Congress is so upset: It sees the sweeping budget and personnel cuts at DOE as de facto dismantlement before members can even consider the matter on the House and Senate floors. So incensed are some members—Democrats and Republicans alike—that they are talking of a constitutional battle.

By law, agencies can be created or abolished only with the consent of Con-

The administration's push for nuclear construction worries Congress; it wants a balanced energy program. Disposal of atomic wastes (inset) remains unresolved.

gress. Consent on wiping out DOE appears to be anything but a sure bet. "I fully expect the House to kill any proposal to kill the Energy Department," says a source close to Rep. James C. Wright, Jr. (D-Tex.), majority leader.

Another major concern among congressional members—and business groups as well—is that phasing out DOE would be akin to announcing an end to the energy crisis. "We are far from home-free on energy," says Richard L. Lesher, president of the U.S. Chamber of Commerce. "Whether it is embodied in a cabinet department, an agency or some other governmental entity, a federal monitoring and policymaking function, properly designed, is necessary and desirable."

The American Public Power Association, which represents close to 2,200 electric utilities owned by local governments, is among the industry trade groups lobbying hard to save Energy.

"Dismantling DOE won't abolish the nation's energy problems, but it could convey a false impression that energy problems are no longer of major concern to the government," says Alex Radin, APPA executive director.

Edwards disagrees: "We don't think that's the kind of signal we're sending out at all. Key energy issues still have to be addressed, and they will be." He points out that under President Reagan's plan, energy would still receive cabinet-level attention under the aegis of Commerce and Interior.

Such arguments get at the heart of a much broader question: What should be government's role in energy? Lesher suggests that it should be based on three premises: (1) The government should maintain a policymaking role, and that function should be consolidated into a single federal entity. (2) This entity should operate at the highest level of government and answer directly to the President. (3) It should be prepared to manage national energy emergencies, such as those brought about by interruptions in foreign oil supplies.

For most of business, the elimination of DOE would probably have little direct impact. The exception is the renewable energy industry. Its annual sales now total less than $400 million. If DOE is eliminated, the scope of the government's involvement in development of renewables—active and passive solar, biomass, wind, hydropower, geothermal and ocean thermal energy conversion—would be drastically reduced.

"I would expect that the high-technology end of the business, which is not yet viable on a wide scale, would fold," says William S. Bergman, executive director of the Solar Energy Industries Association.

If anyone is to gain from DOE's demise, it would be the taxpayers, and even then the extent of the savings remains unclear. According to rough estimates compiled by Hatfield, dismantling DOE, including terminating the coal, conservation and solar energy programs, might save between $3 billion and $4 billion over the next two fiscal years.

Whether such savings justify eliminating DOE is being questioned.

The irony here is that the argument that DOE should be scrapped may be out-of-date. The job of expanding domestic energy exploration and production has, for the most part, already been transferred to the private sector. Most of the troublesome federal regulations that clouded the nation's energy future have been scrapped or drastically cut back. The agency has been streamlined, and it is finally concentrating on what it is probably best-equipped to do anyway: establishing national energy policy and providing a central focus for national energy problems.

The administration, then, could leave well enough alone, or it could press ahead with a battle that it has only a slim chance of winning. □

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Matthew Lesko (left) and Leila Kight (center) started with a phone and a desk and now head a firm paid $1 million annually for research activity.

PHOTOS: MARY TUTHILL

By Mary Tuthill

WHEN IT COMES to business information, it's hard to do a better job than Uncle Sam. Each year the government turns out literally tons of facts—a gold mine of information for anyone who knows how to work the lode and a profitable business for a few experts.

Whether you need information on how a federal bill will affect local business or how industry uses washing machines, the information can usually be found somewhere in the federal government. "The problem most people have," research expert Leila Kight says, "is that they don't know how to find it."

Seven years ago Kight and her then-husband Matthew Lesko started Washington Researchers to dig up such information. With nothing more than an extra telephone and desk in their home, they offered their services to companies by direct mail and telephone. "For the first six months business was slow," says Kight, "but we made $20,000 the first year." Fees were $25 an hour; three years later they charged $75 an hour, with a $375 minimum.

Washington Researchers now does more than $1 million a year in total receipts and has served more than 700 research clients, most of them large companies. What such companies need to know is seldom routine. A fairly typical request came from a company wondering whether Polish golf carts were being dumped in the U.S. in violation of antidumping regulations.

Washington Researchers also holds Washington Information Seminars and Company Seminars several times a year. The thousands of people who have attended account for a large part of the firm's business. The seminars were started in 1976, Kight says, to satisfy people who call asking how and where to find information—"people who want to do most of their own research and have the time to come here to learn the techniques on the spot. Companies with more money than time usually want us to do the projects."

The day-long sessions explain research techniques and include tips on how to get information from Capitol Hill, the Library of Congress, federal agencies, trade associations and other sources. The $250 fee also includes such books as *Researcher's Guide to Washington Experts, Washington Information Workbook* and *How To Find Information About Companies*, all of them filled with names and phone numbers that will make do-it-yourself research less time-consuming and frustrating.

Kight and Lesko now try to limit the number of participants in the seminars to about 75. "We had 280 at the second seminar," says Kight. "That was too many. With a smaller group, people have a chance to interact and come away having learned a lot from each other as well as from the speakers."

David G. Bradley and his staff at the Research Counsel of Washington can honor requests both routine and rare. Research, he says, is like detective work.

Research firms' experts can find the data you need— or teach you how to do it yourself.

Washington Researchers gradually grew from two people with a telephone to a staff of 25, a success Kight attributes to two factors. "We're very good at what we do," she says, "and the demand for information has increased tremendously. Businesses have to have more information just to survive."

An acquaintance of hers, David G. Bradley, opened a similar research firm in 1979. "After about 20 consecutive years in school, including a year in law school, the thing I knew how to do best was research," says Bradley.

HE, TOO, started small. Bradley and a friend set up a desk and telephone in a corner of his parents' living room. "At first my parents thought it was cute to see these two fresh faces anxiously waiting for the telephone to ring." But as business increased and the staff grew to seven, he says, "my parents were getting a little testy about the way we had taken over the apartment." So Bradley bought a Capitol Hill townhouse to accommodate the Research Counsel of Washington.

Bradley's biggest break came when Kight and Lesko decided to enlist his help on some of their research rather than further enlarge their own staff. That was in January of 1980. By June of that year, Bradley's staff was handling all of their research, leaving Washington Researchers free to concentrate on the seminars and research publications. "During our first year," he says, "we worked through the night 12 times and worked on several holidays to complete 125 research projects for 75 clients."

Bradley's group charges $60 per hour but will find and pick up a document for a client for $35. The largest project the Research Counsel has tackled so far took almost two months to complete and cost about $15,000.

Sometimes the research resembles detective work. One of Bradley's researchers recalls a phone call from an auto supply company trying to locate someone with whom the company had previously done business. And the information was needed right away. Within 40 minutes the Research Counsel had located a current address in *Who's Who in Hong Kong* at the Library of Congress.

Another call came from the White House. "The Carter administration wanted to know the number of grants that had been given during the Carter years. We found the information at the General Services Administration and gave it to them. The White House wasn't able to pay for the service because there was no budget for that." But, he says, pointing to a pot of lush greenery, "they gave us a nice plant, which has outlived the Carter administration."

Although Bradley is still primarily

A Little Black Book

An information seeker's list of top Washington telephone numbers should include these sources of free information:

U.S. Congress bill status: summaries of bills organized by key work, topic, congressional committee or sponsor, (202) 225-8646.

Library of Congress, National Referral Center: leads on most business, public policy or personal research questions, (202) 287-5670.

Library of Congress tracer bullets: bibliographies on more than 100 commercial, technological and scientific research topics, including automotive electronics, lasers and terminal care, (202) 287-5580.

Bureau of the Census: economic data by industry and demographic statistics by geographic region, (202) 899-7600.

Department of Commerce, Bureau of Industrial Economics: statistics on every major industry, (202) 377-4356.

Information Central: The American Society of Association Executives will refer you to the appropriate association, (202) 626-2742.

doing research, his group has just published its first book, *The Company Data Directory*. The publication is an index of federal government information on private sector companies.

As the need for information has grown, other information brokers have opened shop—about 300 of them in the last 10 years—but most offer limited services. Some specialize in retrieving documents, for example, and some keep track of imports or data in other fields.

One giant information broker, Andrew P. Garvin's FIND/SVP (for *s'il vous plaît*) in New York City, fields about 4,000 queries a month from more than 700 paying firms with 6,000 authorized subscribers.

FIND has a staff of 70, subscribes to 800 periodicals and several thousand directories and reference books, and rents access to 300 computer data banks. "We're a supermarket of information," says Garvin, whose firm charges an average annual retainer of $3,000 and additional charges of $500 to $50,000 for special projects.

Somewhere, there's someone who can research everything you've always wanted to know about *any*thing. Don't be afraid to ask. □

How To Pick an Expert's Brains

"The researcher's rule of thumb is to find an expert on the subject you need," Leila Kight tells the participants in the Washington Researchers' seminars. Finding the expert takes patience and persistence and sometimes 10 telephone calls.

Once you have located the expert, how you ask may make the difference between getting everything you need and a wasted afternoon. Kight lists these research tips:

- Make a positive first impression with a cheerful greeting.
- Consider the person you're talking to. "You'd phrase questions differently for an oil company spokesperson than for an environmental specialist," says Kight.
- Be open. "Let them know what you're after and why. Dishonesty in explaining your needs or motives will usually be detected, and your source will be wary of providing information."
- Don't overstate your knowledge of a subject. "People don't mind your being ignorant and may help you more."
- Ask for contacts and other places to look for information. "Accepting a 'no' is easy but not creative. You may have to ask your question several different ways to get an answer. If one person won't give you a document, the person in the next office might."
- Be respectful and considerate. "Let people know you realize you're taking their time; show your appreciation."
- Praise and thanks will be rewarded. "A well-placed compliment about the person's expertise or insight will come back to you a hundred times. And handwritten thank-you notes to particularly helpful people will go a long way toward ensuring that your source will be cooperative in the future."

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Managing The Electronic Office

The wizardry of technology won't increase executives' productivity—unless they adapt.

By John J. Connell

YOU'VE READ IT in the journals and you've heard it from eager salespeople: Modern office technology improves managerial productivity. But does it? Not if you simply install a computer terminal in the executive suite. How the machine is used is all-important—and properly used, it has deep ramifications for American business.

Certainly the need to increase managers' productivity is evident. Although figures vary from company to company, most published statistics show office costs rising 12 to 15 percent a year—they will double in the next six years. The only way to bring office costs into line is to make managers more productive.

That goal is already being achieved in the clerical ranks. The big target now is managers and professionals, who account for 75 percent of all office costs. They are a tempting target. Capital investment to date in tools and techniques to help managers become more productive is negligible. One would be hard-pressed to find any essential changes in the way managers operate today compared with 30 years ago.

In fact, a comparison would reveal that today's decisions take longer to make, that today's organizations have more layers without any measurable gain and that the term bureaucracy aptly describes many corporate offices.

Managers and professionals are an elusive target for productivity experts, however. Efforts aimed at clericals can be structured in quantitative terms, and considerable expertise has been developed for doing so. That expertise falls short when dealing with the qualitative work of managers. Besides, clericals who face change have little choice but to comply; managers can resist change—and often do.

Modern office technology cannot improve productivity until the current technological specialization is left behind and supplanted by a broader viewpoint. Once the front office goes electronic, managers and professionals will have to redefine their work and restructure their organizations. Technology will help them cut the time spent on some duties, re-examine who does what and redistribute workloads, become better informed, and speed up communications throughout their organization.

No one machine provides all those benefits. But a combination of machines—a network—offers the potential to improve performance and productivity.

Saving time. Booz-Allen & Hamilton, the well-known consulting firm, recently completed a major study of the activities performed by managers. Once categories of activities were established and time spent on each was determined, researchers analyzed the potential impact of modern office technologies. Electronic mail was applied to correspondence, teleconferencing to meetings, and so on.

The key finding: The first and biggest effect of new technology on managers was saving time. The ultimate payoff, however, is not in time per se but in the value of new duties. Time saved by managers will probably not reduce staff. Rather, managers will perform better and take on additional work. Thus their productivity goes up.

Redistributing workloads. Once the decisions are made about who does what in an office, they are seldom reexamined. Inertia takes over, and if nothing goes wrong, the decisions are cast in concrete. Much of what goes on in an office is done that way because it has always been done that way.

What is needed is a catalyst that can force a re-evaluation of work assignments. Used properly, modern office technologies can be that catalyst.

Consider this example. The standard approach to using word processors is to eliminate personal secretaries and then reorganize the secretarial function: Typing moves into a word-processing center, and an administrative support group serves the managers. That approach may improve the efficiency of the secretary, but it does nothing to improve the performance of the manager—who, incidentally, costs three times as much as the secretary. In fact, it may even lower his or her productivity.

A more sophisticated approach is to consider what functions now being handled by the manager could be transferred to the secretary whose typing duties have been delegated to the word processor. Companies that follow that approach look on word processing as a tool not for improving clerical productivity but for redistributing work so that managers can be free to handle more pressing matters.

The economic payoff is far more attractive, and job en-

richment for employes who take on new and more important duties is an added benefit.

Getting information. No one would dispute the importance of information to managers. Those who are better informed usually have the competitive edge. Good decision making starts with information. But the information that machines provide today is neither very good nor very relevant. What information is stored in machines depends more on the economics of computer storage than on its value to management. As a result, a relatively small percentage of the information that managers need is now available from machines.

Managers must specify their needs; the machines will provide essentially instantaneous response in data, text, image and voice form. Then all the ingredients will be there to improve managerial decision making and performance.

Speeding up communications. This is the greatest benefit of networks. Faster communications means managers can stay on top of things and respond quickly to the unexpected. Cutting down the time involved in sharing plans, issuing directives and monitoring performance can improve managerial productivity.

SINCE NETWORKS permit simultaneous access to information by all levels of an organization, the traditional organizational pyramid needs to be re-examined.

Consider the company that establishes a nationwide marketing operation with district offices that report to the home office. Initially, the operation is small enough that the home office is on top of what is going on in the districts. As the business grows and more districts are added, however, communications begin to break down. Time zone differentials, people in meetings or traveling, the vagaries of the mail system and a variety of other factors make the home office less responsive to changing business conditions in the field.

To solve that problem, companies establish regional headquarters to facilitate communications between the districts and the home office. The number of district and regional offices is determined to a great extent by delays in communications. Once new office technologies that eliminate or greatly reduce these delays have been introduced, serious consideration can be given to cutting the number of regional headquarters or perhaps doing away with them altogether.

THE SAME PRINCIPLE applies within each office. Organizational hierarchies are based on how many subordinates a manager can direct. Much of the process of managing is communicating, so delays in traditional communications—paper correspondence, telephones, meetings—define optimal spans of control.

In the world of networks, however, paper correspondence is replaced by electronic mail, telephones are augmented by voice and electronic message systems, and meetings are streamlined through teleconferencing. Traditional time constraints no longer apply. The span-of-control guidelines can therefore be re-evaluated.

If information is available simultaneously to several layers of organization and if communication is essentially instantaneous, perceptive senior managers will challenge the need for so many layers. The traditional pyramid will flatten, managerial assignments will broaden, and the entire decision-making process will be streamlined.

Another field for productivity improvement is the management process itself. The trend in business is toward more participatory management—getting more people involved in making decisions. The key to participatory management is to make certain that everyone is equally well informed. Hence the extraordinary growth in the number of copies of correspondence and reports and the proliferation of meetings. But all those papers and meetings are the biggest stumbling blocks in any attempt to streamline the corporate organization.

The company that has a network, however, need not produce copies of anything. The originals are available to everyone on a screen. Informational meetings can be replaced by teleconferencing. Operating meetings can also be held via the computer network.

NETWORKS of technologies do not change the intellectual aspects of decision making—analyzing information, gauging unknown factors and evaluating risks. Networks facilitate but in no way obviate the traditional managerial tasks of planning, directing and controlling.

What networks do is streamline the management process. By providing simultaneous access to information, speeding up communications and reducing dependence on paper and meetings, they help make participatory management work.

The ultimate impact of networks on the front office is still an unknown. Use of modern office technologies depends on their acceptance, which is a behavioral issue.

The challenge will be to expedite the learning process because office productivity must be improved. The economic viability of the office—and perhaps even the survival of the business—depends on it. □

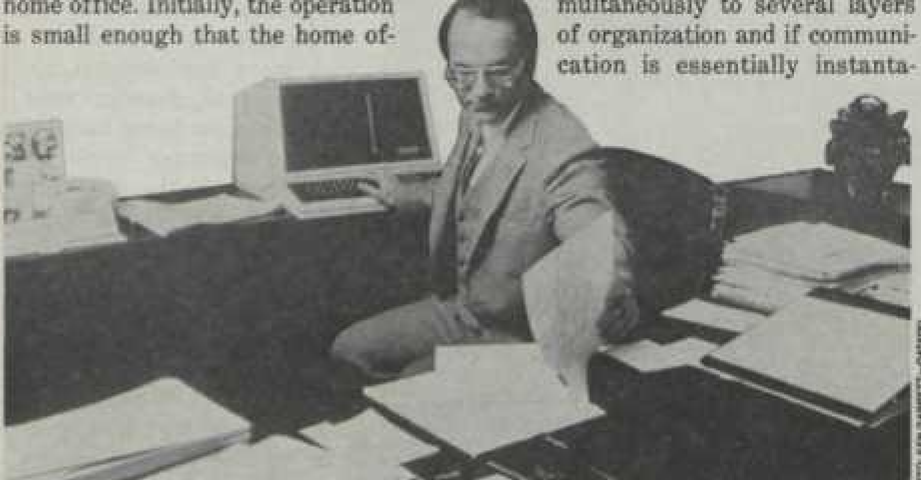
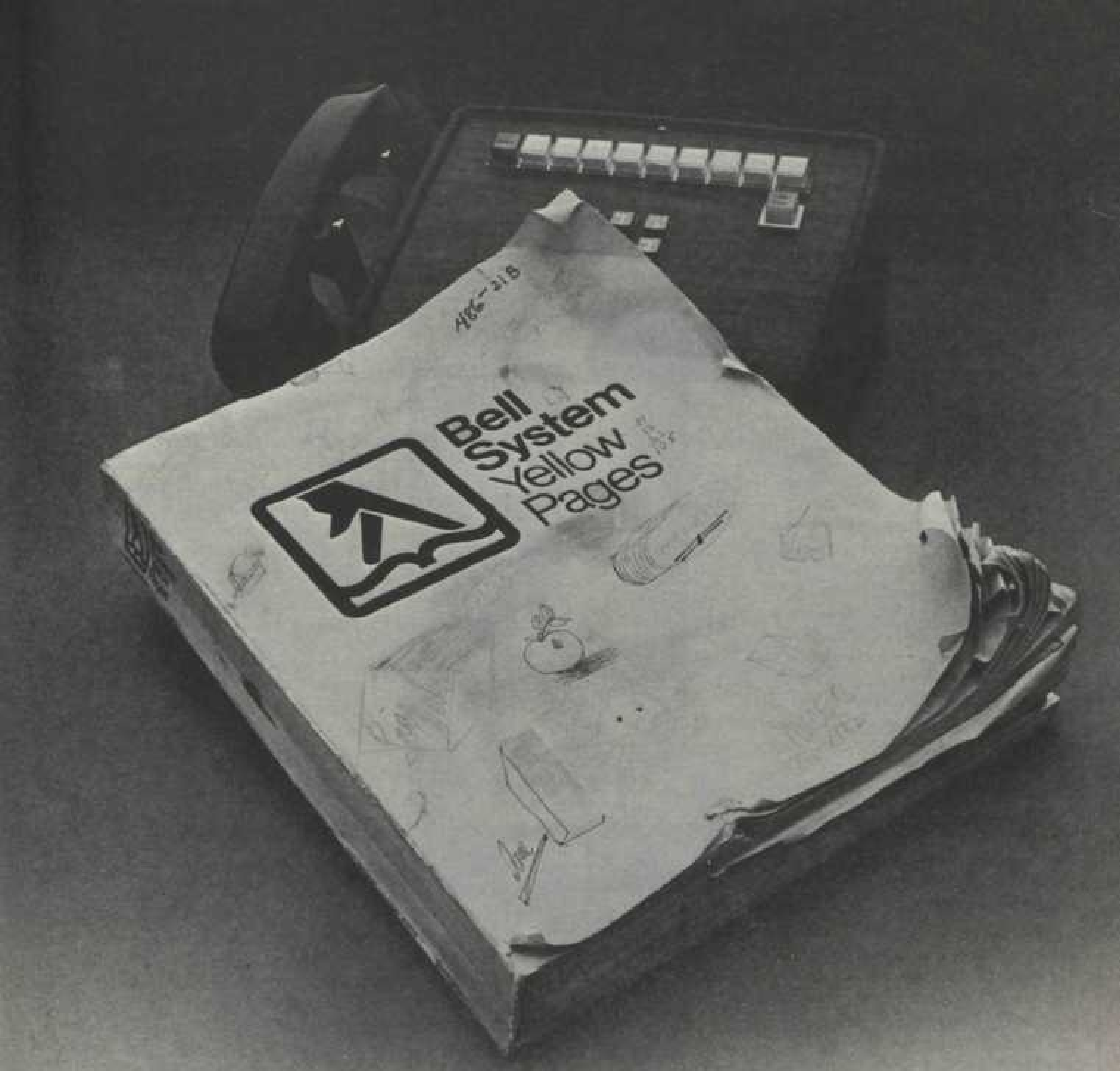


PHOTO: KEN GARRETT—DATATEL

Office workloads and salary levels are unlikely to decline, so managers are turning to electronic tools to stem the steady growth in office costs.

JOHN J. CONNELL *is the founder and executive director of the Office Technology Research Group, a Pasadena, Calif.-based association of executives who follow developments in the computer field.*



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*Burke Market Research Survey of 5000 businesses, April, 1980.

The productive executive of the future will have instant access to a dazzling array of technology. All the components will be linked together in a network through which information—in data, text, image and voice form—will be processed, stored, moved and retrieved by managers and professionals. Ultimately, there will be one primary technology, an integrated network of all such technologies.

ANATOMY OF A NETWORK

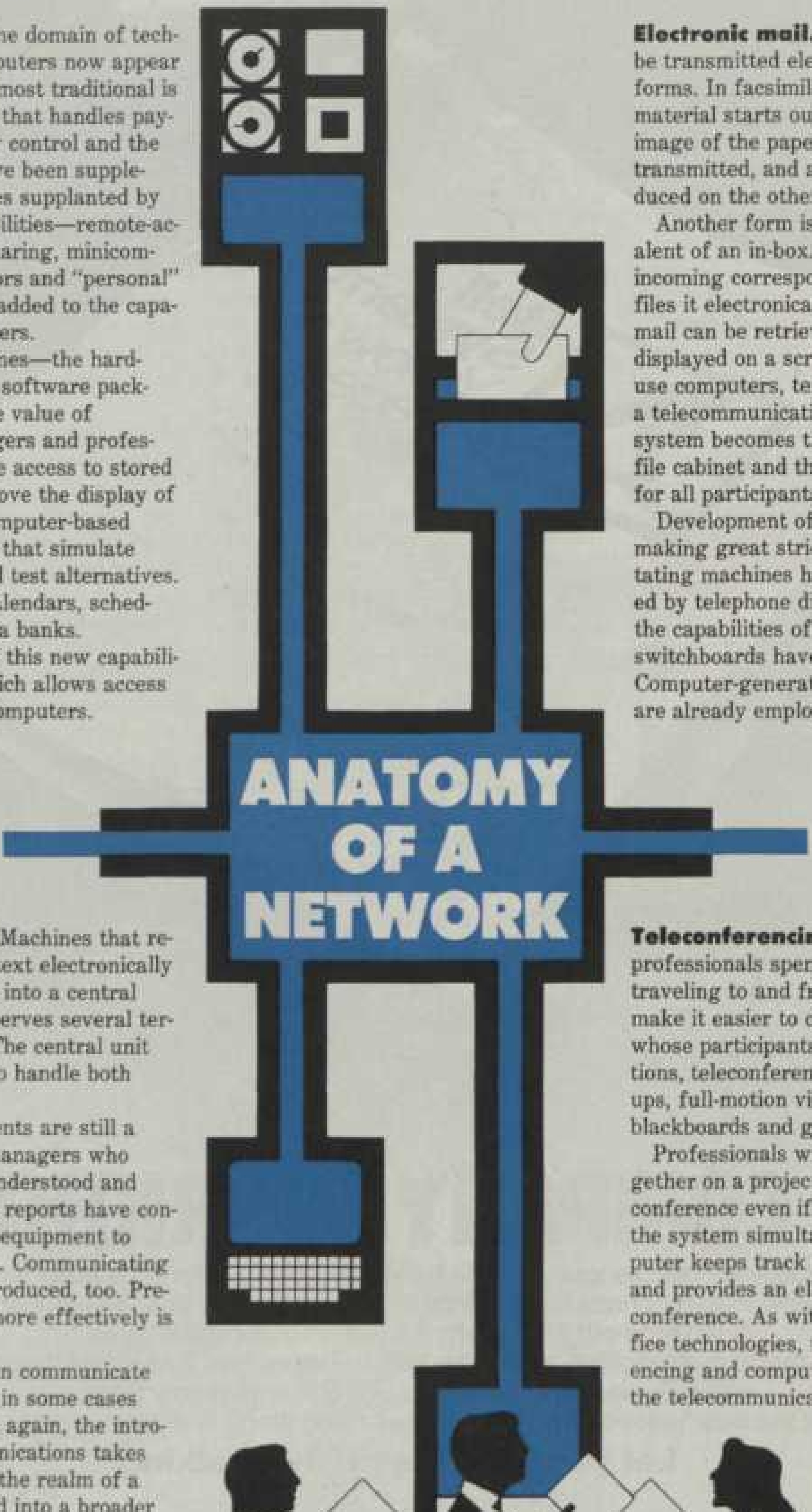


ILLUSTRATION: JACK LEFKOWITZ

Computers. Long the domain of technical specialists, computers now appear in many offices. The most traditional is the large data center that handles payroll, billing, inventory control and the like. Data centers have been supplemented and sometimes supplanted by new computing capabilities—remote-access systems, time sharing, minicomputers. Microprocessors and "personal" computers have also added to the capabilities of office workers.

Besides new machines—the hardware—there are new software packages that enhance the value of technology for managers and professionals. Some improve access to stored information and improve the display of data. Others offer computer-based mathematical models that simulate real-life scenarios and test alternatives. Still others provide calendars, schedules and personal data banks.

The key to much of this new capability is the network, which allows access to powerful central computers.

Word processing. Machines that record and manipulate text electronically can stand alone or tie into a central processing unit that serves several terminals and printers. The central unit can be programmed to handle both words and data.

Since paper documents are still a primary office tool, managers who want legible, easily understood and graphically attractive reports have connected reprographics equipment to their word processors. Communicating copiers have been introduced, too. Presenting information more effectively is the goal.

Word processors can communicate with one another and in some cases with computers. Here again, the introduction of telecommunications takes the equipment out of the realm of a technical specialty and into a broader arena. The ability to type correspondence in one location and have it printed in another is a form of electronic mail.

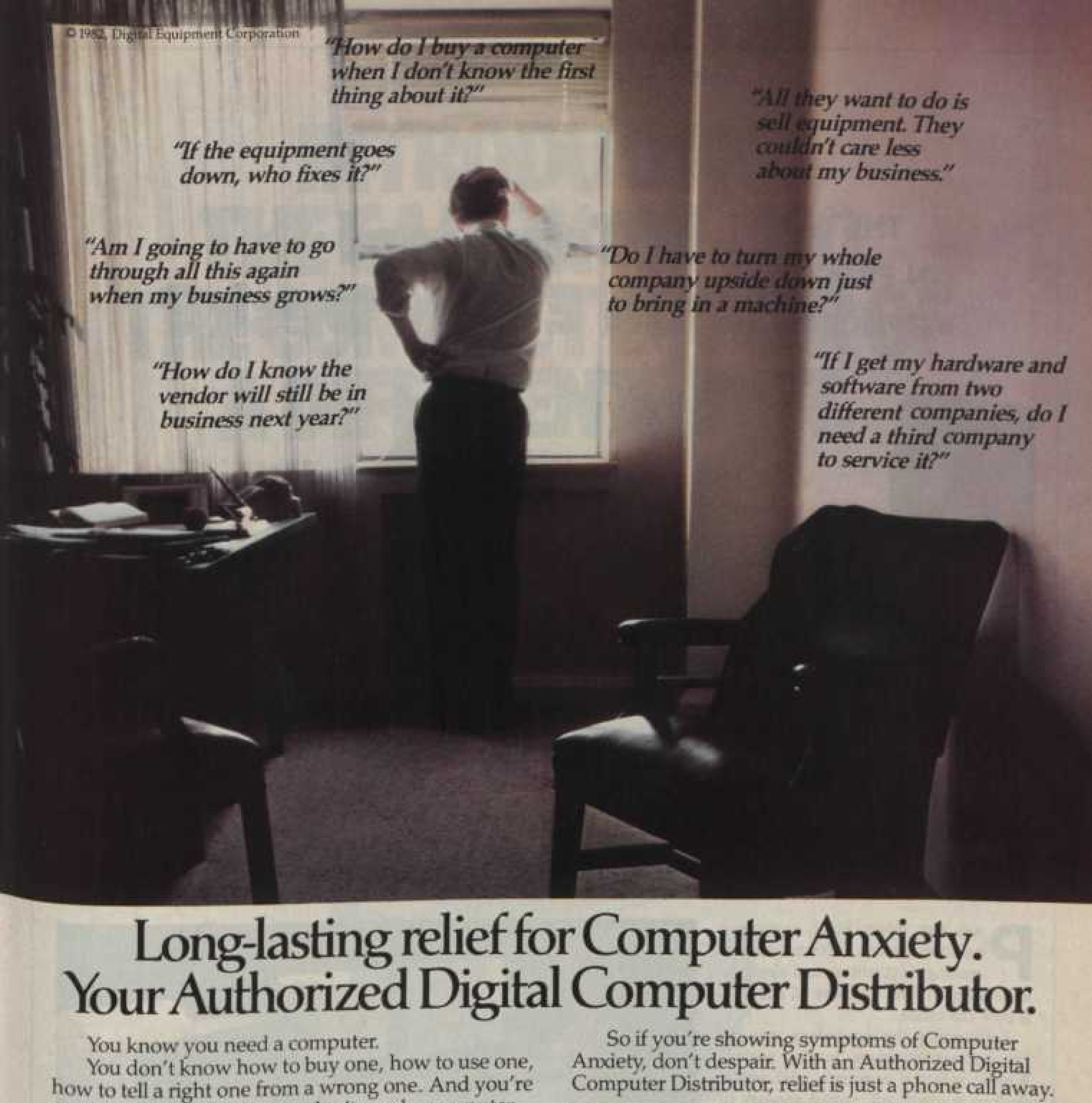
Electronic mail. Correspondence can be transmitted electronically in several forms. In facsimile transmission, the material starts out in paper form. An image of the paper is electronically transmitted, and a paper copy is produced on the other end.

Another form is the electronic equivalent of an in-box. A computer takes incoming correspondence, labels it and files it electronically by addressee. The mail can be retrieved from the file and displayed on a screen. Such systems use computers, terminals, printers and a telecommunications network. The system becomes the correspondence file cabinet and the office messenger for all participants.

Development of voice technologies is making great strides. Traditional dictating machines have been supplemented by telephone dictation systems, and the capabilities of telephones and switchboards have been expanded. Computer-generated voice responses are already employed in many systems.

Teleconferencing. Managers and professionals spend much of their time traveling to and from meetings. To make it easier to conduct meetings whose participants are in separate locations, teleconferencing uses audio hookups, full-motion video, electronic blackboards and graphics.

Professionals who are working together on a project can hold a computer conference even if they are not tied into the system simultaneously: The computer keeps track of their conversation and provides an electronic log of the conference. As with other modern office technologies, the key to teleconferencing and computer conferencing is the telecommunications network.



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THE LATEST IN EXECUTIVE OFFICE GEAR

A Terminal On Every Desk?

By Willie Schatz

PHOTOS: HEWLETT-PACKARD

Equipment manufacturers are designing products that they say will boost the productivity of American managers and professionals, which has remained essentially unchanged since the '50s.

PASS THE WORD. Steel, autos and aviation are out. Information processing, text editing and electronic mail are in. The business of America is now the office.

Automating the workplace may be the hottest business in the nation. Where once the country's goal was a chicken in every pot, now it appears to be a terminal on every desk. With technology advancing rapidly and an estimated $200 billion market ripe for picking, California's gold rush will seem like a waltz compared to the scramble to convince white-collar workers they absolutely cannot live without the latest and greatest gadgets.

"Office automation" is whatever one wants to make it. The territory ranges from the simplest electronic typewriters to electronic file cabinets that can store 100,000 pages of information. It includes teleconferencing, which enables people in different cities to hold

Charts and graphs at the touch of a button: Effective automation provides the key to allowing executives instant access to easy-to-understand information.

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And the NP-210 is compact in so many ways. It even has a fixed copyboard so you can tuck it in that inconspicuous corner in your office.

You can even get an optional mini-sorter. It gives you all the advantages of automatic collation without taking up much room.

And the NP-210 is very convenient. With a single-sheet bypass. An interrupt function. Not to mention a unique "clam shell" design for simplified maintenance.

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NAB 82

meetings without traveling; electronic mail, which permits terminal-to-terminal postal service; and local area networks (LAN's), which allow the connection of computers, business equipment and information processors within a building or complex of buildings.

Utopia for the more than 80 manufacturers creating these astonishing products would be the one-button work station. Your wish would be its command. No training, no computer codes, no schematics. Just push and get what you want. It probably won't happen, but that won't stop vendors from trying.

"Technology is not going to be revolutionary. It's going to be evolutionary," says Jay Moody, vice president of communications for Dictaphone Corporation, which bought into the office automation market by acquiring Artec, a small but highly respected manufacturer of stand-alone word processors suited for law firms.

"People are comfortable with the way they work," Moody continues. "The idea is to add equipment without uprooting them or drastically changing their work habits. When you try to put a terminal on every manager's desk, you'll see real resistance. But that's what all the companies want to do."

If they can't sell one to every executive, they'll surely get rich trying. Most vendors divide the market into four parts: clericals, who work with numbers; secretaries, who work with words; professionals, who work with ideas; and executives.

The nation's 4 million clerical workers are essentially automated. Little more can be accomplished in the wizardry of calculators and adding machines. The 5.5 million secretaries, who work on 500,000 word processors, have been the targets of state-of-the-art technology and marketing techniques for the past few years. The market was worth $2.6 billion last year and is expanding by $1 billion annually.

But that revenue is pennies compared to the $100 billion potential of the 20 million professionals. "They don't have anything but paper clips," a leading New York analyst contends. "Things are so desperate that many people are turning to personal computers for office use. Xerox is the only company doing something about this, and its 8010 Information system became available only in September of last year. What you've got here is a casual but very demanding user. If he has to push one button, that's probably one too many." It may be two more than the nation's 500,000 executives want to push.

PHOTO: CPT

Newcomers to electronic gear, like these future word processor operators, can get personalized instruction from the maker.

"They'll probably never have a machine at all—certainly not in the next decade," the analyst says. "It's the nature of their job. They want someone to bring them the information and the graphs and the printouts, not deal with producing it."

Those who produce, gather, collate and disseminate information can choose from a bewildering assortment of products. Firms that have been peripheral participants are leaping in for a piece of the center.

"American industry has done everything possible to automate the production process but almost nothing for the office itself," Dictaphone's Moody says. "Unless he's very savvy going in, a buyer is going to have to spend a lot of time looking at a lot of equipment. It's almost as if everyone is trying to make up for lost time."

"It's hard to believe that after five years some of you are still wrestling with the question of whether a word processor is a typewriter or a computer," Xerox President David Kearns admonished a conference of the Computer and Business Equipment Manufacturers Association last fall. "I don't think that's an important question. It gets in the way of what really is important, which is that these machines increase productivity dramatically.

"Generating efficiencies in the office can be done effectively only by putting office automation into the hands of professional people."

It is precisely for that audience that Xerox designed its 8010, described as "a personal information system for the business professional." It performs computing, text editing, graphics and communication functions. It can create, modify and store documents, records and graphics. It can distribute the finished product through electronic mail.

And the 8010 can be directly connected to the Ethernet local area network, as can all the products in the 8000 line.

Xerox also recently introduced four electronic typewriters and an 820 desktop information-processing station. Unlike the 8000 series, these require a communications device to plug into Ethernet. The 820 series can be used as either a computer or a word processor.

Xerox may have taken a small lead in the professional work station race, but others are sure to follow. Always, there is IBM, which is to computers what AT&T is to telephones. Most observers warn, incidentally, that Ma Bell will be a ferocious competitor, now that it has new freedom to compete in unregulated fields.

IBM has a big chunk of the market

Wang announces the most important step in managing information since the computer. WangNet.

Business people have an unlimited appetite for information. Which explains the dazzling array of office equipment being created to handle it. And WangNet lets you link all that equipment together, into one network everyone can share.

An information pipeline.

WangNet works something like your electrical system: you put outlets where you need them, then just plug in your equipment.

The WangNet cable can connect Wang computers, word processors, and electronic mail. As well as information processing equipment made by *other* companies. WangNet even handles microwave and satellite communications. Video conferencing. Graphics. Security. And energy control.

What does all this mean? It means anyone in your office can get any information they need. Instantly. From another department, another floor, even another country. Resulting in faster, better decisions. Less frustration. And saving your company enormous amounts of money.

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because, says one envious competitor, "it has a huge installed base." That base makes it simple for customers of one IBM product to turn to such office aids as the stand-alone Displaywriter for text processing, the 6670 Information Distributor for laser printing and electronic communication functions, the System/23 Datamaster for word and data processing, or the recently introduced Personal Computer.

"Everyone's waiting to see what they'll do," the New York analyst says. "They gave their three divisions the assignment of coming up with new products for this market, and each produced machines that couldn't talk to the others. It was a total fiasco—and rather embarrassing. Now they're trying to make it up."

It won't be a smooth journey. CPT and NBI, the leaders in secretarial word processing, show no sign of retreating. Wang, another strong IBM rival and the primary worldwide supplier of cathode ray tube word processors, has six machines in its Office Information Systems line and three months ago introduced the top-of-the-line Alliance, "a human-engineered information management system." This system indexes all documents, permits retrieval using any word or group of words that appear in the document—in English, not computerese—and automates telephone lists and dials the number.

Datapoint Corporation, which offers one of the market's best integrated-system product lines, recently added to its Attached Resource Computer local network a color business graphics system, high-quality laser printer and facsimile communications interface. Datapoint computers can thus receive images from and send images to most commercially available facsimile machines.

Newly entered in the fray are NCR, Digital Equipment Corporation, Hewlett-Packard and Data General.

NCR, a formidable force in mainframe computers, introduced the first piece of a multifunction, shared-resource system called Worksaver. Its target is professionals, managers and secretaries in large companies with special emphasis on IBM users. Worksaver consists of work stations, mass storage units, printers and attachments, memory expansion and software. Further expansion is promised this year.

Digital Equipment Corporation, the world's leading producer of minicomputers, recently introduced Office Plus, which the company calls a concept rather than a product. "We don't perceive the office automation marketplace as significantly different from normal business in terms of customers," says Arthur Laramee, Office Plus program manager.

Office Plus consists of DECmate, DECtype, DECword and DECword/DP, word processors with a common user interface. DECset, which interfaces with word processors made by both DEC and other companies, provides phototypesetting capabilities. The maker also offers DECmail, a mass-market electronic mail system that became available last October. That system provides electronic file cabinet and word processing capabilities.

SO CONFIDENT is Hewlett-Packard about the prospects for office automation that it undertook the largest single expansion in its history. The Interactive Office comprises more than 20 new business computer products and a new sales strategy. The HP 3000 line—the fifth most successful business computer on the market—was sold to business on the basis of its ability to handle a wide variety of financial applications. But the company also aggressively pursued the market for microcomputers, minicomputers and peripherals for engineers, scientists and professionals.

The new strategy integrates those product lines with hardware and software designed for general office chores and office communications. The company offers a new low-end mini, new high-end mini, new software communication links and new disc drives. It plans to introduce electronic mail this year.

"It seemed like a natural outgrowth of what we were doing," a spokesman explains.

Perhaps it's equally natural that the top four companies in the sales of large business computer systems—IBM, NCR, DEC and HP—now are heavily into the office automation market. That surely is a sign of the times. And once HP and DEC took the plunge, Data General could not afford to be left high and dry. Its Comprehensive Electronic Office incorporates the CEO Information Management function, Present software, a local area network capability and a new word processor. It is aimed at all levels of personnel in large multilocation organizations.

One of the few derailments in this newly promised land came for Exxon. The oil giant, hoping to become a fully integrated office automation supplier, used its resources to purchase Vydec, a leading maker of word processors, and consolidated several independent corporate divisions, including Qwip and Qyx. That merger yielded a new division, Exxon Office Systems.

But many of the acquirees' best and brightest sought other employment. The company found it difficult to integrate its product lines and stay competitive. The office systems division currently is mostly a marketing organization for Compucorp, which licenses Exxon's production of the 500 series information processors for secretaries.

"There's no question we've been operating in the red," an Exxon spokesman concedes. "We've had the usual dislocations associated with

PHOTO: DATA GENERAL

Secretaries and clericals are already plugged in. Now it's the managers' and professionals' turn to go electronic.

merging three companies into one, plus the economic problems everyone else has had. But that consolidation is behind us, and we've got a new team with experienced managers. We're targeting to be profitable by the end of 1982, and we're solidly positioned."

As the industry's emphasis shifts from word processors to work stations, the dollars at stake multiply rapidly. Word processors will generate $5 billion in revenue in 1984. Local networks, now negligible, will generate $50 million next year and $500 million in 1985. Professional work stations, now almost zero, will produce $400 million in business in 1985. Personal computers provided $2.6 billion in revenue last year and will generate $12.9 billion in 1985. Equipment that's ready to be plugged in and go on line offers profits almost for the asking.

The Japanese, too, realize the potential of office automation. Despite the formidable language barrier, Sony, Toshiba and Panasonic are planning to enter the word processing market later this year. NEC and Ricoh will introduce their daisy-wheel printers late this year or early next.

"Moving word processors to the secretary's desk just mechanized fairly routine operations," contends Donald Ramsay, a public relations manager for Xerox. "It had absolutely no effect on the bottom line. The big office costs are business professionals. So far they've been bypassed. But increasing their productivity by just 15 percent through something like a network will have a significant effect on the bottom line.

"Executives aren't ready for work stations. They want to be able to push one button and get something. All the middle-level people have to get their act together first," says Ramsay.

"The awareness level is increasing rapidly," says Bonnie Canning, a vice president of Micronet. "People are moving from talking to doing. The next thrust will be toward executive work stations. There will be a progression to the day when everything is done on one terminal."

That won't happen in the next decade. But it could occur in the following one. And every vendor wants to be there first. □

WILLIE SCHATZ *is a Washington-based free-lance writer.*

BOOK BONUS

Michener Looks At Today and Tomorrow

The first time James Michener's work appeared in this magazine was in 1949, when NATION'S BUSINESS, *which then published fiction as well as articles, ran the short story "Out to Pasture." Now, in excerpts from the new book* James A. Michener's USA, *we offer readers a taste of Michener's nonfiction—his observations on significant aspects of American life. These aspects will have a strong impact on business in years ahead.*

PHOTO MARTIN LEVICK—BLACK STAR

PERHAPS I HAVE no particular credentials as a prophet, yet I am a writer and as such it is my obligation to make guesses about the future. My opinions, then, are really those of just one man, perhaps not really qualified to prophesy, but nonetheless, someone whose job requires him to make educated guesses about the future all of the time.

Marriage and family life. Marriage and family are the touchstones of writing. That's what writing is really all about—what people did in finding a mate, in establishing a family, and what happened when everything went on the rocks.

It seems to me that one of the most prized possessions in the world is a family. A husband, a wife, maybe an unmarried aunt or an uncle who's out of work, children and grandparents—all sharing, all taking responsibility for one another. That's the base unit, and the great unit, of civilization. I don't want to see that destroyed.

The problem is, of course, how do you maintain the family. In some respects, I think things are much better today. Courtship, for example. The relationship between men and women when I was a boy was ridiculous. So much guilt was laid on you if you kissed a girl behind the barn.

So much guilt was laid on a girl if she had more than two dates in a week with two different boys. That sort of thing, I think, was for the birds. It's much better now.

So if the system of courting is much better—more honest—now than it was 50 years ago, we are left with the problem of how people can build constructive lives during the five or six decades they may have for family building. It's an interesting and hardly positive fact that in many American cities a significant percentage of all live births these days are to women who are not married.

That, in itself, implies that a great revolution in social mores has occurred. There is a breakdown in family life, and somehow we must restore the strength of the family, even if the meaning of the word comes to be something quite different from the nuclear family of a generation ago.

Education. Education has taken several backward steps in the last 20 years. The so-called dumbing down of the textbooks is one indication of this. You don't teach hard facts anymore because college freshmen and sophomores can't read the texts. So you reduce your expectations. You don't ask for essay examinations because the students can't write. These are very serious losses and have serious implications for the country.

One mistake, I think, is keeping kids in school arbitrarily. We ought to let students quit at age 14, so that the troublemakers who are bored and undisciplined are permitted to go on to other things, while those who can learn and are willing to learn can function in an environment where it is possible for them to learn.

There is a great crisis in education. Although I have hopes that it will be solved, right now I don't see many salutary signs on the horizon.

The Socratic method of probing, questioning and regrouping ideas is still the sovereign path to learning, especially for those sophisticated minds that will produce the intellectual, business, political and artistic leadership in the five decades following their graduation. Thus, I am concerned about the responsibility of the university to those generations unborn or now playing in sandboxes, especially the black generations and the children of the underprivileged, for whom the university may be their only chance of attainment. Throughout Western history, and even more so in Eastern nations like China

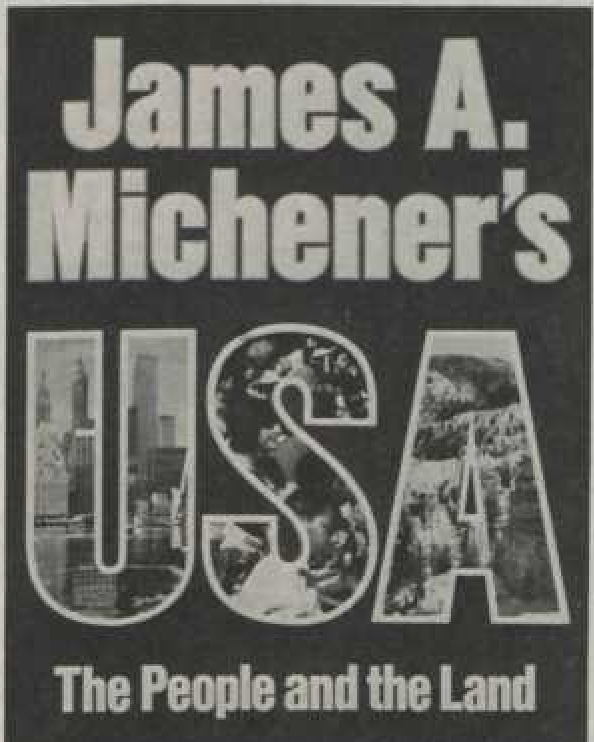
and Japan, the traditional way by which men improved their society has been through learning: in ancient China, learning at the desk of some sage; in Greece, learning at the feet of the philosophers; in the Middle Ages, learning in the monasteries; and in recent centuries, learning at universities. No poor boy who has seen his own life expand because of education would want to see the process denied to others.

Let me summarize my attitude toward American education by explaining what one suffers when he talks with European critics. They badger Americans with observations like: "Everyone knows that a high school degree from France or Germany or Israel is superior to the average college degree in America. Professor X taught at Upper Oklahoma State Teachers one year and told us that most of his students barely knew how to read."

I used to argue with such critics but lately have developed a different tactic. I confess everything: "You're right, the European high school does teach more than our second-class college. You're right, we do have students who can barely read. You're right, discipline in our schools is deplorable. . . . But you must not judge your system against ours because we're trying to do something never before attempted. We're trying to educate an entire people. For every young Frenchman or German who can wangle a place in one of your colleges, we provide places for 20 young Americans. When we try to educate so many, some are bound to be poor risks, so naturally, if you compare your best students with our worst, your system is superior. But if you put your top against our top, ours do not suffer. And we produce 20 times as many. Our gamble is to educate everyone who looks as if he could absorb an education, and that's why our society moves ahead. That's why we draw down so many more Nobel Prizes than our population would warrant."

It is not difficult for me to defend American education, for I can tell my critics, "If I had been born in Yugoslavia or Spain, I would have had no chance for an education. From birth I would have been doomed to a limited life. But the American system was constructed so as to identify children of promise and to make something of them."

We now have over 12 million young people in college. We're the only nation in history to have more college students than farmers. We have more college professors than most nations have students. And from this reservoir of trained intelligence we hope to identify those brains that will keep us alive. The loss we suffer trying to educate those who fail is insignificant when compared to the gain we make from those who succeed.



Religion. I have always been a very strong supporter of churches. I'm a Quaker, though not a particularly good one so far as attendance at Sunday meeting is concerned. But I try to support religion because I believe that its role in our society is so important. Suppose, for example, that I were a young executive, age 26, and was suddenly uprooted by my company and moved from Allentown, Pa., to Detroit. Where would I go to make social contacts, perhaps to find a wife? Certainly not to a bar or to a nightclub—not if I have any sense. The first thing I would do would be to affiliate myself with some church, because there I would be likely to find someone who shared my values. So I have a wonderful regard for churches as social instruments.

I am not, however, much concerned with churches as theological debating societies. True, in times of crisis, a lot of people return to traditional concepts of faith. The recent visit of the Pope to the United States was evidence of that. I think his visit generated a real outpouring of sentiment in favor of religion.

On the other hand, I believe that we have all benefited from the fact that the Ayatollah Khomeini has taken political power in Iran. His regime is a constant reminder to us of the limitations of religion as a system for political guidance. I want churches as agencies of social contact, not as operators of the political system.

The "me" generation. One of the most interesting developments of our time is that a lot of bright young people feel that they do not have to go to college. They're beginning to cop out. They believe they can have perfectly good lives—do what they jolly well please—without putting in a lot of preparatory work. This, I guess, is one of the attitudes of the "me" generation. I don't like that aspect of their thought because if people are to have constructive lives, they must prepare themselves adequately. Certainly sidestepping the obligations one has to society is not constructive. We cannot survive as a society if each person looks out only for his own best interests. We must have joint efforts. The control of inflation, energy conservation, rebuilding cities, providing jobs—all of these things require intelligent cooperation.

My guess is that a certain percentage of the population will opt out, will cease to be effective citizens by the time they're 30. That will simply put a heavier burden on the rest of us—those of us who see we have an obligation to assume these tasks.

On a sense of history. The old symbols of patriotism no longer seem to ignite the mind or the imagination. When I was a boy we had two celebra-

tions in which the entire community participated: Memorial Day and the Fourth of July. And we marched in parades and watched fireworks. We had Civil War veterans in our midst whom I knew and loved, and from whom I derived some of my sense of history when I listened to their tales of the war. And we all went out to the cemetery to pay homage to those who had saved this nation in one crisis or another. We don't do that anymore.

I don't know where young writers get their sense of the past these days. Certainly not from the old rituals and from the war stories of old men. In a way, that's too bad. We must, however, recognize that some of the old values that have just about disappeared are well gone.

Our attitude toward race in years past was outrageous. It's much better now. Our attitude toward minorities—religious and ethnic—was pitiful in those days. But one thing that we lose to our peril is the sense of history's continuity—that the present derives from the past and that yesterday has many profound things to say to today and tomorrow.

On feminism. I have always been a strong supporter of women's rights. I was the first man in my area to employ a woman lawyer. I have a woman accountant and a woman agent. I couldn't live without their services. In the future, I think, employing women in such capacities will not be at all unusual. That is right and just.

I am not at all certain that the mere fact that women are going to become infinitely more important in the economic and political life of this country is going to alter society greatly. I am not too impressed with the way India has gone under Indira Gandhi, or the way Ceylon went under Prime Minister Sirimavo Bandaranaike. Nor was I a great admirer of Israel's Golda Meir.

In my view, women are subject to all the pitfalls, and are capable of all the accomplishments, that men are. My guess is that a world in which power was shared by the sexes would not be too different from the world we know today.

The communications explosion. It is often said that we are suffering from a glut of communications, and to some extent, I think we are. Sometimes I muse upon the days when World War I was in progress. If the people at home had been able to watch television, if they could have seen the carnage of that conflict within hours of each battle, I don't think they would have tolerated it. Certainly television modified our perception of the Vietnam War and helped cause public opinion to rise against it.

Today, television modifies everything of importance that happens. The news is reported so quickly that we sometimes don't have time to digest it. This kind of instant communication is going to continue, to become even more pervasive. As I am now in my 70s, it certainly isn't going to determine my life. But I do feel sorry for young people who will get all of their information via television.

Reasons for optimism. There are plenty of optimistic signs for the future. Our political system, for one thing.

We have presidential elections every four years, and they are always orderly. Somebody is elected and it goes without saying that the loser accepts the decision of his fellow citizens. There's no need to bring tanks onto the streets to enforce the mandate of the people. The Supreme Court is going to go on. The Congress is going to continue. I think that all this is a miracle in itself—one that I greatly prize. We have one of the most orderly political systems in the world.

Another point is that we have not lost our skills. We are still very good in managerial ability, in manufacturing goods for people and distributing them. I am confident that our education system will, in time, pull itself together, though probably in sharply modified forms. And I don't think we're going to have intense racial problems in the future. We're past that. Certainly there will be racial troubles, but they won't be terribly destructive.

We need optimism. I don't see how individuals or society can move forward without the belief that 10 years down the road life will be good, that individual merit will be rewarded and that the nation will make the right decisions. Certainly people all over the world believe these things when they think of the United States.

When I travel abroad, that becomes abundantly clear to me. No matter where I am, people come to me at my hotel late at night, begging me for assistance in getting into America. They want to be here—they want to share in the American dream. □

From James A. Michener's USA, *foreword by James A. Michener, edited by Peter Chaitin. Reprinted by permission of Crown Publishers.*

"We put the shower head at the wrong end of the tub, a kitchen cabinet in the bathroom — and balconies at the water's edge."

— Paul M. Pearson, Developer of "Shearwater", a new condominium on the Annapolis waterfront.

Tradition Bathroom vanities are designed mostly for children and used mostly by adults. Traditionally, vanities are four inches lower than kitchen cabinets. Ask an architect "Why?" and he'll explain "so the children can reach them!" ***Why design bathroom vanities for children?*** Put the kids on a stool and let the old folks last a little longer! Yet not a manufacturer in the country makes vanities the right height for grown-ups! Fruits of the industrial revolution. Standardized backaches. ***Why not use kitchen cabinets for vanities?*** Why not, after all? So we found a seductive kitchen cabinet that looks great in the bath. Because it is taller, it has more storage space. And it lets you start the day, not with a wince, but a smile!

Tradition Shower controls are placed directly under the shower head. They always have been. This assures you of a numbing blast of cold water to the head if the previous occupant left the control knob in the shower position. And when you drop the soap, doesn't it always slither down to the drain end of the tub, impossible to retrieve without an unwanted shampoo? ***Why not put the shower head at the wrong end of the tub?*** We tried it and you'll like it. It will make every Shearwater shower a more even-tempered experience.

Tradition Annapolis is a sailor's town, with seventeen miles of waterfront, none more beautiful than Spa Creek. A tradition not to be rejected, but respected. The balconies at the water's edge are designed to be comfortable there, with 3-inch tongue and groove decking and stainless steel rigging between the top and bottom rails and great supporting wood timbers. There are fireplaces and boat slips, tennis and raquetball and a pool by the water. Not to mention the earth station. The what? The earth station. Our own receiving dish trained on the southwestern skies bringing television shows from a satellite. And there we go breaking with tradition again.

Visit Shearwater soon. You will find thoughtfully designed one-, two- and three-bedroom apartments. An extraordinary level of quality throughout. A few apartments still unsold, for November delivery, and more to be ready for Christmas and New Years. An imaginative financing package to suit every Buyer. And at least two wrongs that we have made right.

Shearwater

on the waterfront in Annapolis

Architect: Berkus Group Architects
Builder: Creager Construction Company
Interiors by: Designs by Karen
Financing by: First Federal Savings & Loan of Annapolis (Construction)
Anyone Who's in the Market (Permanents)

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Does Your Firm Need Outsiders on the Inside?

Many a small business should have a strong board of directors—but doesn't.

By R.F. Merwin

ILLUSTRATION: CAROL SMITH

AT SOME POINT in the evolution of the small, privately held firm, the chief executive officer should consider the benefits of creating a board of directors that includes several key outside experts. Qualified directors can overcome the CEO's shortcomings in specific areas, such as finance or manufacturing technology, as well as review corporate performance.

The typical board of directors of private corporations (and some publicly held ones), however, is frequently composed of the friends or relatives of the chief executive, a few operating people, plus a lawyer and a banker.

As a result, the board is often little more than a rubber stamp. Why this is so reflects the basic purposes of a board: to evaluate the performance of the CEO, mainly by the company's profitability, and to replace him if his performance is inadequate. The board of directors also determines the CEO's compensation. It's only natural that he would want friends at court.

There are two other basic reasons for an inbred board. The CEO doesn't want outside counsel because he believes he can better run the show without "interference." And he doesn't know how to recruit strong outside directors and develop them into an effective team to enable the company to progress and keep out of trouble.

It's true that at many highly successful one-man companies, which need directors for legal purposes only, the chief executives can accomplish more without giving outsiders an inside look at their operations.

At other companies, however, the CEO recognizes he is not adequate to head a growing organization yet guards his title and position with all the power he can generate. These are the companies that get into trouble.

Even a mediocre executive can lead his company successfully through stormy business times if he surrounds himself with able, compatible men and women who will spend one day each quarter reviewing corporate performance and making recommendations on major problems and opportunities.

The wise executive offsets his shortcomings with directors who are more experienced than he wherever the corporation needs good advice.

What about the size of a board of directors? There is no rule of thumb. Most people agree that when a board has more than 10 members, it begins to become unwieldy. For smaller compa-

R.F. Merwin *is chairman of Eriez Magnetics, which he cofounded in 1942. A closely held company, Eriez currently has sales of more than $30 million per year and has averaged a 17 percent annual increase in sales and profits over the past eight years. Its Erie, Pa., headquarters and seven foreign operations make magnetic and vibratory products for separation, minerals beneficiation, pollution control and other purposes.*

Some actions you take may not be unanimously approved. This is a healthy sign that you don't have a rubber-stamp board.

nies, directors' fees and travel reimbursements are expenses that dictate a maximum of four outside directors.

Many experts say the proportion of operating people on the board should be less than 50 percent. Selected operating people may be present for all or part of board meetings without being elected directors. A corporate lawyer should be willing to serve without being an elected director.

Having your favorite banker on the board is not recommended. At times you will want to discuss financial problems without him around. Besides, it might be embarrassing if you decide to change banking institutions or divide your business between banks.

Where do you go to recruit experts? Unless you operate in the boondocks, far from any large city or university, you can easily find qualified candidates within a few hours' drive of your headquarters.

Let's say you have analyzed the strengths of your present operating group and your present board of directors.

You need help in developing a stronger marketing program, for example, or perhaps there are weaknesses in engineering, production, research and development, or finance. You decide to attack this specific problem by developing a more effective board of directors.

The next step is to define the type and depth of expertise needed to round out the board, and then sketch the background, experience and personality factors required of the outside directors who will strengthen weak areas.

THE SEARCH could begin with your attorney and local bankers. Ask them for names of potential candidates. Colleges and universities are a bountiful source of individuals with specific expertise who yearn for a chance to share their knowledge and simultaneously gain experience in the business world.

Professional consultants are easy to recruit. They will gladly work as directors at their standard per diem rate.

Even busy corporate presidents will be flattered by an invitation to serve on a board of directors as long as they will be working with able, stimulating people. It is not unusual to find experienced executives willing to serve for a modest honorarium, depending on company size and the time required to attend meetings, and travel expenses.

Don't overlook the contributions that a capable woman can make. There are many women in business who are eager to serve.

At Eriez Magnetics we recruited our first three outside directors in 1961, when our sales were slightly over $2 million. Two of the three have since moved into the chief executive positions of their own successful organizations; all are still members of our board and rarely miss a meeting in spite of busy schedules. We now have five outside and five inside directors.

Here is a rough guide to honoraria for a four- to six-hour board meeting:

Annual Sales	Minimum Honorarium
Under $5 million	$400
$5 million to $15 million	$500
Over $15 million	$700

Board members who attend committee meetings often are paid comparable amounts, depending on the time involved. Expenses are extra.

Every director need not be paid the same. Though it's recommended that the honorarium or directors' fee be set at a standard rate, certain directors whom you may want to call between meetings to help resolve sudden problems or establish new programs deserve extra compensation.

Some directors you choose simply may not fit, or their impatience may create tension. As in any instance in which a mistake has been made, the CEO and the misfit director are better off with a mutual acknowledgement of the problem; usually the director will offer to resign.

Directors don't want to serve where they can't make a contribution, will create problems or are not wanted—unless, of course, they were elected for a specific purpose by a group of unhappy shareholders.

One key to developing an effective board of directors is providing information so directors can prepare for board meetings and committee sessions. A CEO who wants assistance and advice on a given problem could provide background material ahead of time. In addition to monthly financial statements, directors may regularly receive order booking reports, new product literature, copies of technical papers, ad reprints, etc.

A good director will get a feel for the business after a few meetings and informal talks. Excellent guidance frequently comes from conversations with directors outside the boardroom.

WHO TAKES responsibility for making major decisions—operating management or the board of directors? At Eriez we seldom ask the board to make decisions. Management frequently taps directors for their experience and opinions on a subject, but management then goes into the board meeting with specific recommendations. If there is firm opposition from several directors, we take no action and restudy our recommendation.

Some actions you take may not be unanimously approved. This is a healthy sign that you don't have a rubber-stamp board, and it keeps pressure on the operating group to prepare recommendations carefully. When given board approval, managers can move ahead confidently.

One reason for excellent attendance at Eriez's quarterly board meetings is the opportunity for directors in a variety of businesses to exchange information and views. We all learn from one another. Even topflight directors absorb information that is valuable to the execution of their respective jobs.

A growing problem for people accepting directorships or trusteeships in either profit-making or charitable organizations is their personal liability. A suit brought against an organization and its directors personally may have little or no merit. Nevertheless, court costs and time may be considerable.

Eriez provides insurance to protect a director from personal financial liability. Cost to the company is $5,300 annually for total coverage up to $1 million. Although Eriez has never had trouble in this area, outside directors feel more comfortable with this protection.

Businesses in trouble are almost always those whose chief executives are attempting to function without strong, capable outside directors. □

To order reprints of this article, see page 80.

Fight Off Audit Fears

By John Hanly Adams

What are the chances that your 1981 federal income tax return will be chosen for the special examination known as an audit? About one return in every 45 is audited—around 2 percent. But the odds go up sharply as income rises, to about one in six for returns reporting income above $50,000.

Other factors that may prompt an audit: Unusually high deductions for charitable contributions, and travel and entertainment expenses; tax shelters; casualty and theft loss claims; home office and vacation home deductions; losses from a sideline business (often challenged by the Internal Revenue Service as a hobby).

Returns showing only wages or salary get audited much less frequently than those showing income from businesses, farming or professions.

Fear of an audit leads millions of taxpayers to overpay Uncle Sam. But if you have good records, tax authorities advise, take all your lawful deductions.

Double-Check Your Adviser

Taxpayers who get bad counsel or shoddy service from tax advisers often pay the penalty, even when the bum advice comes from IRS. Two recent examples:

- A businessman didn't pay estimated income tax because his bookkeeper was advised by IRS that no payment was due. When he incurred a penalty for not doing so, the U.S. Tax Court refused to help. The court said it is not free "to grant relief based on a reasonable cause or lack of negligence."
- An attorney told a client that the time for filing an estate tax return had been automatically extended. It hadn't. A late-filing penalty was imposed and upheld. Two federal courts said that the taxpayer's reliance on his attorney's mistaken advice could not be "reasonable cause" for excusing the late filing.

Moral: Choose advisers carefully and check their work.

Check Out Pension Plans

Employers and employes alike should look into the "salary-reduction" and "cash or deferred-income" plans when reviewing their retirement and employe pension programs.

Basically, the idea is that an employe can have his employer deduct a portion of his annual pretax pay from his paycheck, then put the money into a savings or investment trust. No tax is due until the money is withdrawn.

Such plans may offer greater tax savings—especially for higher-bracket employes—than the liberalized Individual Retirement Accounts approved in the 1981 tax legislation. Annual payroll deductions can be far above the $2,000 limit set for IRA's.

But the plans must meet the standards of the Internal Revenue Service. Proposed regulations governing the plans have just been issued. For explanatory material, write to Buck Consultants, Inc., 2 Pennsylvania Plaza, New York, N.Y. 10001.

Get Set for 1982

The Economic Recovery Tax Act of 1981 created a whole new game for the tax-wary executive. Some specifics:

- Income tax rates fall 8.75 percent in 1982 and another 9 percent next year. So deferring income until '83 and increasing deductions in '82 can save taxes.
- Two-paycheck married couples can deduct 5 percent of the first $30,000 ($1,500 maximum) earned by the lower-earning spouse in 1982 and 10 percent ($3,000 maximum) starting in 1983. Caution: You cannot count any pension or investment income when figuring the low-earner's pay for this deduction.
- Only $100 of dividends ($200 for married couples) can be excluded from taxable income in 1982. That's half the 1981 exclusion. And no interest income is excludable except the earnings from all-savers certificates of deposit. Note that money-market fund earnings are usually dividends.
- As of January 1, you can give or leave your entire estate to your spouse without incurring any federal estate or gift taxes. And you can make gifts of $20,000 ($10,000 if you're single) to other individuals without incurring federal gift tax (the previous limits were $6,000 and $3,000). But check your state's estate and gift levies; many are going up.
- If you sell your home after age 55, you now can exclude from taxable income up to $125,000 ($62,500 if you're single) of any profit ($100,000 and $50,000 previously). Sellers of any age can exclude such profits if they buy a replacement home within 24 months (18 months previously). These rules apply to sales after July 20, 1981.

Record Your Family Payroll

Another facet of job-related tax savings for small, family-operated businesses showed up in a recent Tax Court decision.

The taxpayer claimed business expense deductions for sums paid to three children (ages 7, 11 and 12) for their work around his mobile home park. IRS disallowed the deductions, but the Tax Court approved them, finding they were reasonable pay for services rendered.

Note that a child earning more than $3,300 a year has to report the income on his or her own tax return, and if the income provides more than half the child's support, he or she can't be claimed as a dependent. Meticulous family and business records are crucial.

Take Credit for Hiring

Small companies tend to overlook the targeted-jobs tax credit, now extended through 1982. It's worth up to $3,000 a year if you hire a disadvantaged person. Your local public employment office can help you qualify. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

DECEMBER SOUND OFF RESPONSE ON PAGE 80.

Raze the Interest Rate Ceilings?

SINCE Colonial times nearly all states have had usury laws. These are state-imposed limits on interest rates that lenders can charge on consumer loans. Today, most states still have usury laws, but a bill now before Congress calls for their elimination. Supporters say usury laws are stifling the nation's economy.

States adopted usury laws back in the days when each state's economy was independent of that of neighboring states and of the nation. Interest rate ceilings were set by the state legislature, which periodically raised or lowered the limit depending on economic conditions. Although a few states have done away with their usury laws, the rest still tinker with them, setting annual percentage rate ceilings that vary as local politics and lobbying groups permit.

For example, in Arkansas the usury ceiling is 10 percent; in Indiana and Idaho it is 36 percent. Rate variations exist not only by state but also by type of loan, by size of loan and by lending institution.

Rep. John J. LaFalce (D-N.Y.), author of the bill to remove state usury laws, argues that "consumers can't get credit in states that have restrictive usury ceilings, and businesses cannot afford to extend credit in these states." He contends that market interest rates nowadays are determined not by state forces "but by national and international forces. We no longer are a series of little colonies, each independent of the other."

Opponents of LaFalce's bill say taking off interest rate ceilings would legalize loansharking. They agree with the Consumers Union, which argues that state consumer protection laws are intertwined with usury laws and that to remove the ceilings would subject consumers to "hidden charges and unconscionable fees."

LaFalce answers that his bill would leave intact state consumer protection provisions. His bill would also allow states three years to override the federal pre-emption and thereby reinstate a usury law if they chose.

The Federal Reserve Board, though opposed to rate ceilings, is against the bill, explaining it should be each state's responsibility to correct its interest rate problems.

On the other hand, the Reagan administration, although favoring increased state powers philosophically, supports the LaFalce bill. "Usury ceilings only distort financial markets and credit flows," says Treasury Secretary Donald T. Regan.

Should state usury laws be abolished? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Editor
Nation's Business
1615 H Street, N.W.
Washington, D.C. 20062

Should state usury laws be abolished? ☐ Yes ☐ No

Comments: ____________________

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PEOPLE IN BUSINESS

Scholarship Money For Everybody

A funny thing happened to Daniel J. Cassidy on his way to earning a doctorate in pathology at the University of California Medical Center in San Francisco. The 24-year-old student became fascinated with the process of obtaining scholarship money as he collected $20,000 in scholarships and a $4,000 research grant, and he thought it might be possible to earn some cash helping others to do the same.

Early in 1979, while still working on his doctorate, Cassidy—assisted by his wife, mother, sister and an Apple computer—started a back-room scholarship search service at home.

PHOTO: INDEPENDENT JOURNAL

Daniel J. Cassidy and his Apple computers dig up scholarship information.

Business grew so fast that a year later he decided to postpone his studies and devote himself full-time to his business. He incorporated as National Scholarship Research Service, hired 10 employes and added several more computers.

"Almost everybody under the sun qualifies for some scholarship," says Cassidy. "There are scholarships if you are just interested in a field." His service does not duplicate the financial aid listings found in university and college bulletins but digs up the unusual ones in the private sector that often go unclaimed because they are unknown.

For example, the Rochester Institute of Technology once awarded $1,500 each to 150 people who couldn't yet read, do math or spell their names. The recipients were born on June 12, 1979, the school's 150th anniversary, and to use the credit, they must attend RIT when they are old enough.

The University of Arizona offers $500 to rodeo riders with high grade-point averages. Funds from various institutions are available to people with certain last names, those born in a particular town or those meeting some other requirement. The possibilities are endless.

For a $40 fee Cassidy's service supplies undergraduate and graduate students with a list of funding resources appropriate to their field of interest. It is then up to the individual to apply for the funds.

"I count on satisfied students to tell others about the service," he says. "So if a student is not happy with the printout or we cannot help—if, for instance, a person wanted to study a subject not offered in an accredited college—the $40 is refunded."

But most of the more than 8,000 individuals who have received Cassidy's scholarship lists have been satisfied. "The average scholarship is for $4,000," he says. "The largest is $20,000 for four years and the smallest is for $100. About 80 percent do not ask about a student's financial need."

The company continues to grow. It now has 14 computers and a staff of 20. "With cutbacks in federal funding, I think it is becoming more important to have a company like mine to bridge the gap between the student and available money," says Cassidy, who plans to start a similar service next year to locate grant money.

Already making a comfortable living, Cassidy says he is more interested in putting money back into the business to expand than in making a profit. "It's not the money I love," he says. "It's the equipment—the toys."

The Incredible Edible Edifice

When Patti Paige, a part-time art teacher in New York City, decided in the summer of 1978 to supplement her income by selling homemade cookies, she didn't know she was baking up a new career for herself.

Within a few months Paige was selling her walnut and fudge tarts—her grandmother's recipes—in many of the city's leading stores, including B. Altman & Company. Then she added chocolate chip and peanut butter cookies, which also sold well. By December of that year, she was making a profit of $300 a week.

For Christmas Paige made some gingerbread houses, which she sold for $6 to $12. She soon moved from the conventional style of gingerbread houses to city buildings—brownstones, loft buildings and row houses. These she sold for about $35 each.

"I'd walk into a store to deliver one of these cakes, and suddenly there would be a crowd around me," she says. "One day a builder asked whether I could bake a model of his new apartment building. That was my first commission, and I got $250 for it." The structure had 1,800 tiny windows that had to be painted in icing, each of them the size of a thumbnail.

She abandoned cookie production except for special orders—valentines, tree ornaments and other shapes for which she makes her own wire molds—and concentrated on more gingerbread architecture. The baking is done in her New York loft apartment. She makes large sheet cakes from scratch and then constructs them into cakes.

Patti Paige is in the construction business, but her buildings are edible.

A cake order for an art opening finally set her direction and suggested the company name, Patticakes.

Paige made marzipan replicas of all the items in a still life the featured artist had painted and then duplicated the still life on top of the cake that was served to the guests.

Since then, she has done cakes in the shape of furniture, tennis rackets, shoes, airplanes, magazines, newspapers, books and many other objects.

"The most expensive one I've made was a 30-foot cake in the shape of a snake for a party celebrating Frank Zappa's movie 'Baby Snakes,'" Paige says. "I charged $1,000 for that one."

She no longer teaches art. "I can make a better living with my baking," she explains, "and I still have time for my own art work."

Paige, 29, does not advertise; she relies on word of mouth for new orders. "Business is light in the summer, and I don't work at all in August. But it gets very heavy in the winter, especially around Christmas."

Her profits have remained about the same.

"It could be a really big business, but so far I have wanted to keep it small and flexible so I have time to do other things," she says.

That, however, is scheduled to change. Her plans for 1982 include a new line of cookies or cakes and an expansion of the business, perhaps even taking in a partner.

"I hope to double profits within a year," she says.

By Mary Tuthill

To the Impoundment Lot in High Style

Lincoln Bouvé may be the only person whose day is improved by traffic tickets, "boots" and towed automobiles. The 43-year-old Washingtonian is the founder of Humiliation Elimination, Inc., a firm that caters to people who frequently ignore parking regulations but would rather be spared the inconvenience and time lost when they get caught.

Bouvé, a producer and writer for the media, got the idea for his business while he was waiting in line to reclaim his Porsche from the city impoundment lot after his car had been towed once and booted twice in 14 months.

HEI started last March and now has more than 2,000 members in Washington. A member need only call and report getting a ticket, and HEI will pay the ticket and bill it to the member's credit card account.

If a boot—a big metal clamp locked onto the front wheel to make the car immovable—is placed on a member's car, HEI pays the accumulated fines and arranges to have the boot removed. The city authorities employ this device in cases when the car's owner has not paid previous fines.

If the car is towed, a call to HEI will bring a limousine to take the car's owner to the impoundment lot. In the meantime, an HEI employe will have paid the parking ticket and the towing charge. Depending on the time of day, the limo will be stocked with finger sandwiches and champagne (Perrier where that is not permitted) or coffee and scrambled eggs.

Members pay $45 a year. If somebody asks to join when his car has already been towed, there is an additional $25 charge. And a tourist, who would use the HEI service only once, is charged $50.

Several congressmen and about 50 members of their staffs and other politically and socially prominent people have joined HEI, says Bouvé. "Some give memberships as gifts to spouses or children who seem to pile up tickets," he says. Several companies subscribe for their fleets of cars.

"We were caught completely off guard last fall when we were inundated with requests for memberships for Christmas gifts, so we quickly got into the retail end of the business," Bouvé says.

The company, which started with a staff of three, now employs 12 and has opened a Boston office with eight employes. A Philadelphia branch will open this year, and others are being set up.

"Ten cities are using some form of the boot now, and I expect that in the next two years 80 percent of the major cities will follow," says Bouvé. "We will have a gold card that will be good in all such areas."

He attributes his company's rapid growth "to the ruthless efficiency of parking enforcement programs and the public's tendency to procrastinate in paying parking tickets." □

PHOTO MARY TUTHILL

Lincoln Bouvé (left) sends a chauffeured limo to rescue owners of towed cars.

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They Want DOE To Die

POSSIBLY the "greatest hoax played on the American taxpayer to date" is how Fred L. St. Armand describes the Department of Energy in his response to the NATION'S BUSINESS December Sound Off question, Should the Department of Energy be dismantled?

"The sobering thought revolving around DOE, this horrendously expensive monster, is that it was created in the first place," St. Armand adds. "Imagine, $13.8 billion and 18,000 bureaucrats who can't even produce a single barrel of oil!"

St. Armand, sales manager at Hawn Bedding Company in Kansas City, Mo., has lots of company. Readers voted overwhelmingly—by a margin of 13 to 1—for eliminating the Department of Energy.

William J. Fitzpatrick, a staff attorney for DeSoto, a diversified chemical manufacturer in Des Plaines, Ill., says, "Abolish this governmental boondoggle. It's an example of government overreaction and overinvolvement in private industry. Incentives to private industry can be better provided through investment credits, tax breaks and direct research and development grants."

One of the few readers to disagree is Max Ender, sales manager for a wholesaler of fireplace equipment in Sherman, Tex. "This is the only department that I believe can keep us out of the grasp of the big oil companies," he says. "We need to continue to work with photovoltaics and alcohol fuels and to try to eliminate the use of fossil fuels within the next 50 years. DOE should continue to expand on these solutions to our energy problems."

Louise Morgan, a semiretired elementary school teacher in Three Rivers, Mich., makes an additional point: "To end DOE smells of surrender to the OPEC countries and the oil barons in this country. We must continue our development of new sources of energy. Let's put the same energetic effort into this challenge as we put into the space program. Our survival depends on a united effort."

"It is in our national interest to progress toward renewable energy sources," argues Don Katterhenry, an accountant for Malone Brothers, a construction company in Tell City, Ind. "With enlightened leadership, DOE can spur this progress. The leadership at DOE should be dismantled, not the department."

Many who favor dismantling DOE agree with F.M. Williams, former president of Beaver Oil Corporation, Middletown, Conn. He says, "Government has never done any job as well as private enterprise. If there is a need and a profit can be made, private enterprise will do the job."

RESPONDENTS fault the Department of Energy for being a totally unproductive agency. David M. Diamond, a geologist in Shawnee, Okla., asks: "Can DOE show the public one drop of energy it has found since 1976 with the billions of dollars it has been given? The answer is probably no. Give me six years and a thousandth of its funds and this one-man geology firm will find more energy."

Robert K. Calcote, president of Bounty Petroleum Corporation, Coral Gables, Fla., voices a similar view: "From my personal experience with DOE, I would say it has done irreparable harm to the oil industry and is a definite hindrance to production. People in DOE don't understand their own regulations." Adds L.W. Kehe, owner of Cedar Valley Engineering Company, Waverly, Iowa, "Writing memos and rules provides no fuel."

Joseph P. Rice, secretary-treasurer for the Lodi Lumber Company, Lodi, Ohio, says, "Whatever necessary and useful tasks DOE performs can be done by other government agencies without increasing the work force or overworking anyone."

William F. Cushing, president of Diablo Rental, a company that leases oil refinery equipment in Pacheco, Calif., looks at the question from another perspective: "Energy is the responsibility of each and every citizen, not only the bureaucrats. If we citizens care enough, we each in turn will make the necessary sacrifices whether a government agency is involved or not." □

The Detector Set

By John Costello

WHAT DOES it take to be a treasure hunter? A scholar's knowledge of the route that Spanish fleets took on their annual voyages to bring back the New World's treasure to Spain?

A diver's skill and courage to search the treacherous bottom of the sea for sunken gold and silver?

The patience required to go for months or years without ever sighting a mound of round ballast stones that marks the grave of a treasure-laden galleon?

Not necessarily.

Many treasure hunters never slip into a wet suit—or even get their feet damp.

"There are three kinds of treasure hunters," Xavier D. Minish explains. "The cache finder who's looking for valuables like gold or silver, on land or in the sea; the competition hunter who takes part in staged contests to find the most buried targets in a given time; and the relic hunter whose primary interest is digging up historical objects, like Civil War memorabilia."

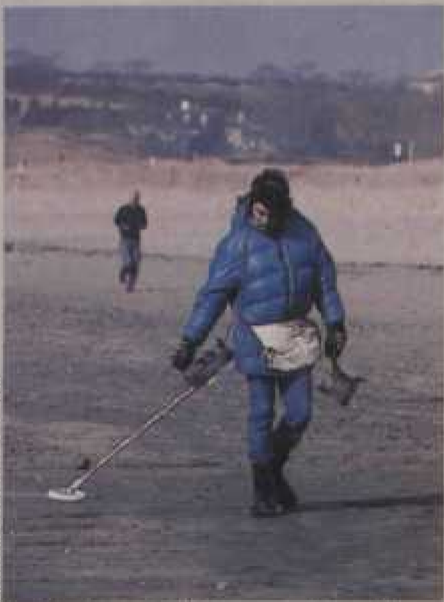

PHOTO: J. H. PETERSON—PICTURE GROUP

Hunting for buried treasure with metal detectors isn't as big as jogging—yet.

So what is treasure?

Not just silver pieces of eight or gold doubloons, nor Incan art or rare Chinese porcelain retrieved from the worm-eaten hull of a ship that split on a reef off the Florida Keys.

And not just a miser's buried hoard, a lost Dutchman's mine, nor the dust panned by Cherokee Indians in Georgia's gold-bearing streams and hidden from the white man.

It's all that—and more.

Treasure hunters define it as anything of value that was lost or hid-

PHOTO: GARRETT

Each of 1,200 contestants at a hunt in Grand Prairie, Tex., hopes to find enough buried targets in 45 minutes to win a prize.

den, underground or in the sea.

"I'm a relic hunter," says Zave Minish, who is production planning manager at an Owens Corning plant in Huntsville, Ala. He has a roomful of Civil War relics—buttons and belt buckles, horseshoes and spurs, pistols and minié balls.

He bought his first electronic metal detector about 1970.

"They used to be big, heavy and awkward," he says. "But about 11 years ago manufacturers got them down to a practical size, weighing maybe 4 or 5 pounds. I read about the new machines in a magazine. There was a dealer in Decatur, Ala., where I live. I bought one of the first ones he sold.

"During the Civil War, there was some fighting around Decatur. I knew a lot of relics—coins, ammunition, insignia—were still in the ground. No one had hunted for them. So I went to the bank of the Tennessee River, where Confederate and Union troops had clashed several times.

"The very first day, I found more than 25 pounds of shrapnel and 300 minié balls.

"That's when I got bit by the treasure-hunting bug. I got rid of my shotgun and fishing rods. This was much more fun.

"But then it was an unusual hobby. So I'd hunt only out-of-the-way places, where people wouldn't see me swinging this electronic divining rod back and forth over the ground. I was afraid they'd think I was loony.

"Now, of course, it's a much more popular hobby."

That's why a lot of places are "dug out," Minish finds. Much of his treasure hunting is done now in libraries. There he pores over old diaries, regimental records and the 128 volumes of the official federal annals of the Civil War.

Which does he enjoy more—search or research?

"Oh, the hunting," he says. "Each find is a piece of history."

PHOTO: GARRETT

Sharing the excitement of a competition hunt, father and son uncover another hidden target.

Fishing is older than fly rods, and golf was a game before mashies were made. But modern treasure hunting is a hobby that owes its origin to the gadget you use to pursue it. And that's the metal detector.

It's a device with a control box at one end of a rod and a search coil at the other. An electric current, flowing from control box to coil and back, creates a magnetic field.

If the coil passes over a metal object in the ground, the detector alerts the hunter by a beep or buzz in his earphones or the swing of a meter needle.

The granddaddy of them all?

Probably a two-man, spark-gap detector made in 1927. Today's models are far lighter and smarter. For example, they can tell the difference between discarded aluminum foil or pull tabs and gold or silver coins.

"Hand-held detectors run from about \$50 to \$500," says Stuart Auerbach, president of the Metal Detector Institute of America, Maitland, Fla. "Treasure hunters spend about \$15 million a year on them and about \$2 million more on accessories, like headphones, digging tools, detector carrying bags or display cases."

Where are all the new treasure hunters coming from?

"Many are retirees," Auerbach says. "Sometimes they cover a Florida beach

PHOTO: G. ANDERSON—UNIPHOTO

Some people prefer the old-fashioned way. Panning for gold in Wild Plum Creek in the Sierra Nevada occasionally yields a nugget missed in the 1849 gold rush.

PHOTO: GARRETT

The modern way: The detector beeps and blinks if a gold coin is near.

like ants. They get exercise and may find valuables, too. Mostly they're coin shooting. But I've seen some with cigar boxes full of rings and gold watches, as well as coins."

AMERICANS lose a lot of coins. Not only at beaches, but at fairgrounds, football games, parks, picnic grounds—even parking meters.

"Ever watch a wild bunch of fans tear down the goalposts after a victory by the local team?" one treasure hunter writes. "The end zone of one Midwestern college football field produced 563 coins and 11 class rings."

Few can find a coin quicker than Ron David.

He's the men's Indiana state champion and, others say, one of the nation's best competition hunters. He won his title last July at a hunt staged by the Hoosier Hills Treasure Hunt Club at Ken Wray's farm near Freetown, Ind.

That competition hunt is one of the biggest in the country, says David, sales representative and assistant store manager of Decker's, a sporting goods store in Anderson, Ind.

"It draws the top guys," he says. "That's one reason I felt good about winning. The other was that I tried about 10 times before and my luck was zilch."

To take the title, he finished first in a field of about 300. Each paid a $10 entry fee. At the crack of the starter's gun, they swarmed over a 2-acre area of woods and stubble fields where some 2,000 purple-painted pennies were buried 1 to 6 inches underground. Each contestant's goal: Find more pennies than anyone else in the 45 minutes allowed for the search. In that brief time, David found and dug up 40 of the metal targets.

"It's like an electronic Easter egg hunt," he says. "You have to be quick—and lucky."

Sharp ears don't hurt, though.

"You get a signal when you make a hit," David explains, "but the beep depends on how deep the metal object is buried and how big it is. Good treasure hunters must be able to detect very minute tone changes."

Competition hunts, he says, were started about 1965 by the Prospectors Club International. He won that championship in 1970 and 1974. Usually, winners get a share of the entry fees in competition hunts.

But that's not what attracts him.

"It's the glory," he says. "It's a tremendous comfort for someone who's 50, like me, to know you can still compete with guys in their 30s and 40s. And when you've got that headset on, listening to the sound, there's nothing to bother you—no phone calls, no complaints, no worries about deliveries.

"It's completely relaxing. You're in a world of your own."

Carl Frederick isn't alone when he's treasure hunting.

"We hunt as a family," the Floridian says.

"The family—that's my wife, Mona, and our daughter Carla and her husband, Randy, our daughter Wendy, and our youngest, 16-year-old Heidi. Each has her own expertise. Our kind of hunting is a team sport or hobby."

And they don't dig for treasure; they dive for it—off the Florida coast or the Florida Keys, where so many galleons sank laden with New World loot.

"My wife's the organizer. She takes care of logistics. Carla and her husband are underwater photographers. Wendy's a numismatist—any coin you can find, she can identify. Heidi has the sharpest eyes. I'm the electronics expert and researcher—who tries to locate the shipwrecks.

"Of course, everyone has to double in diving or running the boat, except Maggie, our magnetometer. Maggie is a supersensitive underwater ferrous metal detector."

Frederick's firm, Research Search and Salvage, Miami, which specializes in underwater photography, imports and sells underwater metal detectors.

"We hunt on weekends," he says, "so we don't travel great distances. We put our 21-foot Aquasport on our trailer and head for the water.

"We may head for Biscayne Bay, about 8 miles from our home, then out to sea, or go down to Key Largo. But instead of a beach party or a basket picnic, we look for treasure.

"We always look outside the 3-mile limit. Out there, it's finders keepers. Inside is under control of the Florida Board of Antiquities. Fortunately, those old ships didn't sink at great depths. They had to hit something shallow, like a reef."

As a weekend hobby, seagoing treasure hunts offer mostly fresh air, sunshine, fun food, refreshments and togetherness.

Maggie doesn't look for gold. Magnetometers scan at great distances, but only ferrous metals produce a reading on them. So Maggie looks for old anchors, cannon, cannonballs or iron ship fastenings.

"Of course, what we usually find under the water," Frederick says, "are sunken 55-gallon drums, a bunch of old cables, a motorcycle or a truck body.

"But my philosophy is this. If you're hunting for treasure only, you're not really getting what the hobby has to offer. If you come up with some goodies, that's a fringe benefit.

"What you go for is adventure." □

Are Finders Keepers?

Not everyone puts out the welcome mat for treasure hunters.

Private property, for example, should be off limits without the owner's permission. All units of the National Park System are off limits, too. That includes many Revolutionary and Civil War battlefields and Indian sites, like cliff dwellings.

The Forest Service has no blanket prohibition against use of metal detectors, although their use may be verboten in some areas. Check with the local National Forest officials, it advises.

Finding and keeping, however, are two different things.

The American Antiquities Act of 1906 bans the removal of any archaeological, paleontological or historical object from any federally administered lands—except with a permit.

Then some states prohibit use of metal detectors or treasure hunting on their own land. Florida is one of those states.

It's illegal to treasure hunt on state-owned lands without a permit, the state's Division of Archives, History and Record Management says. On the east coast of Florida, that includes coastland from the mean high-water mark out to the three-mile limit offshore.

"Under Florida law, even looking for coins on a beach is illegal," a spokesman says. "But we try to administer the law with common sense. What we're trying to do is prevent major looting of our archaeological or historical heritage—not harass hobbyists."

Protectionism's Perils

PROTECTIONISM is in the wind, and as always, its seductive perfume masks a debilitating narcotic.

International competition has the same virtues and characteristics as domestic competition. It provides more and better products, promotes efficiency and keeps prices down. But in the process, competition creates losers as well as winners. And the losers often seek political protection.

The fallacy of erecting trade barriers—as an economic proposition—is easy to see. Just take the practice to its logical extreme: Suppose every country imposed equally severe restrictions on international commerce. Then each would be in the same position, relatively, as if there were no restrictions. But less trade would take place in such an ultraprotectionist world, and consequently, living standards would be lower. Much lower.

Well, don't we have to shield our industries and workers from the unfair trade practices of others? As a matter of economic theory, most economists would say no. A protectionist country is likely to do more harm to itself than to its trading partners. A country that sells to other countries while refusing to buy from them is exchanging useful products for little pieces of paper—money—that have value only because they represent claims on goods and services. A country that sells its products for less than their cost is making a gift of the difference to its customers.

Democracies, however, seldom function strictly according to economic theory. When the discriminatory practices of one country are (or appear to be) the cause of economic problems in another, political pressure to retaliate can become irresistible. The U.S. is nearing that point today, a fact our trading partners should note. (See the article that begins on page 22.)

Retaliatory trade restrictions are in some ways similar to nuclear weapons. The threat of their use may help to preserve the peace, but if they actually have to be employed, it's a catastrophe. Any U.S. protectionist moves should be intended solely to persuade other countries to agree to mutual reductions. Otherwise, retaliation will beget retaliation as nations "protect" themselves into a major depression.

The best course for the U.S. government to follow is to help its businesses become better competitors, rather than try to shield them from competition. Essential to the success of such a policy is abandonment of the air of suspicious hostility that has long prevailed between the federal government and the nation's private enterprises. There are several specific steps that would help, too:

- Revise antitrust law to recognize that competition takes place on a worldwide scale. The test for monopoly should not be the number of American producers. It should be the availability of competitive products and services, from whatever source.
- Stop trying to apply American law within the borders of other sovereign states. The foreign affiliates of American companies should not be placed in the impossible position of having to serve two masters making conflicting demands.
- Encourage the State Department and other agencies of the U.S. government to help Americans find and exploit overseas business opportunities.

As Commerce Secretary Malcolm Baldrige warns: "Unless we get our act together, we risk a long-term period of economic decline." □

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The Lowest
The lowest in tar of all brands.

Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health.

BOX, BOX 100's: Less than 0.01 mg. "tar", 0.001 mg. nicotine, SOFT PACK 85's FILTER, MENTHOL: 1 mg. "tar", 0.1 mg. nicotine, SOFT PACK 100's FILTER, MENTHOL: 2 mg. "tar", 0.2 mg. nicotine, av. per cigarette by FTC method.

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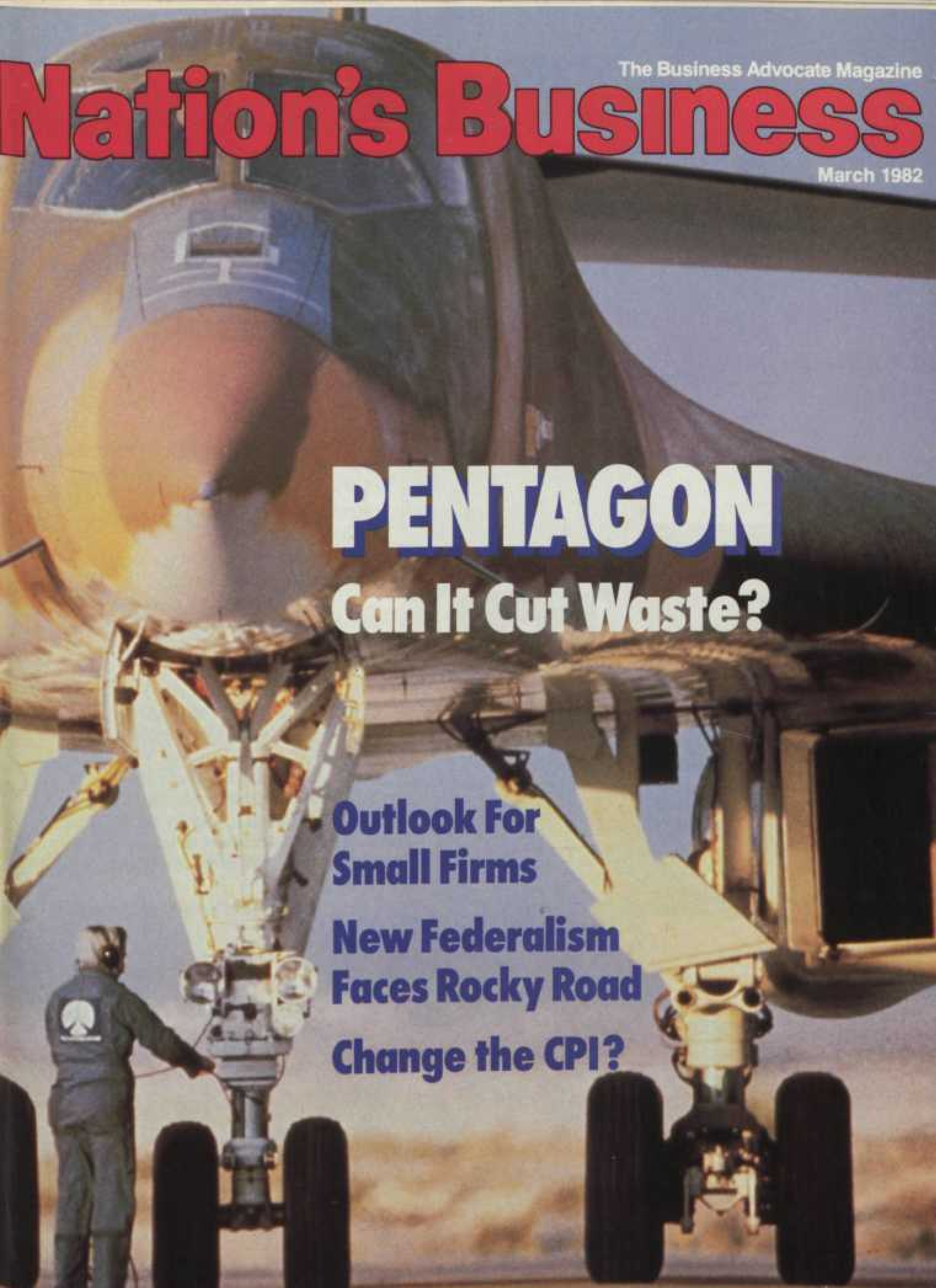

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